BORDEN

1985 ANNUAL REPORT

Financial Highlights

(In thousands except per share and percentage amounts)

	December 31 1985	1984*	Percent Change
Operating Results (for the year)			
Net sales	**$4,716,172**	$4,568,018	+ 3.2
Income taxes	**130,700**	136,700	− 4.4
Net income	**193,804****	182,082**	+ 6.4
Net income per common share	**3.75****	3.39**	+ 10.6
Dividends:			
Common share	**1.48**	1.32½	+ 11.7
Preferred series B share	**1.32**	1.32	
Total dividends	**76,501**	71,066	+ 7.6
Capital expenditures	**193,602**	163,751	+ 18.2
Financial Position (at year-end)			
Working capital	**$ 613,552**	$ 440,527	+ 39.3
Current ratio	**1.9:1**	1.6:1	
Long-term debt-to-equity percent	**37%**	32%	
Shareholders' equity	**1,407,795**	1,309,604	+ 7.5
Equity per common share	**27.41**	25.17	+ 8.9
Common shares outstanding	**51,344**	52,015	− 1.3
Return on average shareholders' equity	**14.3%**	13.7%	

* Restated for retroactive application of the accounting change and the two-for-one stock split explained in Note 2 to Consolidated Financial Statements.

** Net income and earnings per share in 1985 were $184.9 million and $3.58 before including one-time net after-tax gains of $8.9 million or $0.17 per share primarily from early extinguishment of debt and the sale of property reduced by an employee early retirement program and other costs. Net income and earnings per share in 1984 were $173.1 million and $3.22 before including one-time net after-tax gains of $9.0 million or $0.17 per share from the sale of property.

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1985 Financial Review:

Letter to Shareholders and Employees

The economy in 1985 was at best sluggish, with real Gross National Product increasing only 2.3%. In this economy your Company performed well, with a first half about even with a year earlier and a record-setting second half, up 18% on a per share basis.

On a reported basis, our earnings increased to an all-time high: net income was up 6%, and earnings per share were up 11%, from 1984.

This result was accomplished, in spite of a depressed chemical industry, because of the redeployment program, which was started in 1980 with the purpose of achieving a steady growth of shareholder value over time by managing all of the assets of the shareholders which had been entrusted to us. This philosophy led to an early spin-off of most of our businesses and properties that were not part of our future; to our early repurchase of shares, in recognition of their value, and to an ongoing drive to be the low-cost producer of quality products in our industries.

This program is not static; it is dynamic. We continue to adjust ourselves to the future environment in which we will compete. The most recent example is our recognition that into the future your Company must be globally oriented to compete. With this in mind we have changed from a geographic orientation to a product orientation worldwide. In 1986 we will be without an International Division as such, its operations absorbed into an organization with worldwide responsibility for food and chemical products. The "One World" that Wendell Willkie envisioned in the early 1940's is being realized, but it is an economic "One World," not a political one.

The new alignment of our operations along product lines worldwide will expand the reach of our managerial talent, lead to more efficient use of our worldwide manufacturing capabilities, open opportunities for global marketing strategies, and enable our worldwide businesses to better and more quickly apply the wealth of technology the Company owns and will develop.

The need to combine our domestic and foreign operations is

E. J. Sullivan (right), and R. J. Ventres.

unquestioned, and the question whether combining them will work has already been answered. For three years, our Canadian and U.S. chemical operations have been run jointly, as have our Canadian and U.S. consumer products operations. The relationships and the results have been excellent.

In recognition of the need to improve our return on equity as a measure of corporate performance, the ROSE program was developed in 1980. Our ROSE (Return On Shareholders' Equity) has increased from 11.9% in 1979, before the program, to 14.3% in 1985; the market price of Borden stock has gone from a low of just under $10 per share in 1980 to a high of $53.50 per share in 1985. There was also our first stock split in 20 years, in June of 1985, a strategy to expand our shareholder ownership.

We are aware of the economic projections for 1986—that it will be a year of at best modest growth. Nonetheless, we enter the year with a reasonable degree of confidence, and are aiming for an increase of 12% to 15% in earnings per share from the $3.75 reported for 1985. Our optimism is based on the following:

- We will have 1,000 fewer employees in our ongoing operations.
- We will have the full-year benefit of acquisitions: Crown/Sunworthy wallcoverings, the Viviano and Anthony pasta companies, and Detroit Pure Milk.
- We will continue to make strategic acquisitions.
- We will have fewer shares outstanding due to our announced repurchase of 4 million shares.
- We will have higher sales from added volume, gained through deeper market penetration.
- We will have lower costs for raw materials, especially for natural gas.
- We will have improved manufacturing, purchasing, and distribution efficiencies, achieved as a result of capital investment and the implementation of more than 25 recommendations submitted by six study teams that evaluated all our domestic manufacturing operations during 1985.
- We will consolidate plants and administration in "clusters" for lower costs.
- We will increase through-put in the consolidated plants by taking on co-packing arrangements for others.
- We will continue the Petro-condo strategy that has been so successful at our petrochemical complex in Louisiana, and are extending the strategy to our consumer products plants—"food condos"—thereby reducing capital and reaping the benefits of selling raw materials and services.
- We will have increased efficiency and lower costs from the consolidation of our International Division with our domestic food and chemical operations in the changeover to a worldwide product strategy.

With our ongoing dynamic strategic plan, we are confident we can produce the desired results. However, much can happen that is beyond our control. We have a balance sheet that will help us to weather adversity if it comes; we have a tight, efficient organization; we will continue to manage *all* our assets—physical and financial—in order to reinforce our operating income.

Our new President and Chief Operating Officer joins in this Letter since he played a vital role in our 1985 results and our commitment to 1986.

It is a pleasure once again to express our appreciation to all those who contributed to the Company's success during the year. Our hardworking and able employees, our loyal and highly supportive shareholders, and our experienced and constructive Board of Directors were a source of strength and encouragement not only to the undersigned, but also to the 27 other members of senior management who comprise the Company's Core Management Group.

Bernard Nemtzow, Vice Chairman, resigned as an officer and as a director of the Company, effective February 1, 1986, in preparation for early retirement. To Board deliberations he brought a welcome quality: an "insider's" knowledge and an "outsider's" objectivity. His professionalism was apparent; his integrity, unquestioned. Borden is a better company because of "Bernie" Nemtzow's dedicated efforts, and we join his associates on the Board and throughout the Company in expressing our deep appreciation for his unparalleled service.

E. J. Sullivan
Chairman and
Chief Executive Officer

R. J. Ventres
President and
Chief Operating Officer

Volume sales of Eagle Brand condensed milk and ReaLemon reconstituted lemon juice improved, benefiting especially from seasonal promotions.

Borden Grocery and Specialty Products Division

	1985	1984
Sales (in Millions)	$1,133.7	$1,134.8
% of Total Sales	24%	25%
Operating Income (in Millions)	$137.6	$122.7
% of Total Income from Operations	35%	31%

Operating income of the Grocery and Specialty Products Division increased 12.1% from 1984 with almost no change in sales. Led by the Pasta and Confection and Main Meals operations, all five of the division's units contributed to the improvement.

The division's performance was attained despite only slight volume growth by the grocery industry it serves and a disinflationary economy that severely limited price increases and, in some cases, caused price declines. The improved results were largely the outcome of a strategy to raise mar-

ket shares through increased merchandising efforts and broader distribution.

CONFECTION AND MAIN MEALS

Sales of this group were down 5% but profits were up 18%.

Benefiting from year-long consumer and merchandising programs, the company's cheese business grew during the year, despite the negative impact on total commercial cheese shipments of a Government-sponsored cheese-donation program. As a result, Borden strengthened its Number Two market position in its chosen sector of the industry, processed cheese. Solid growth was achieved in the diet/health segment; the ongoing "Ms. Mouse" promotional campaign for Borden Lite-line helped to increase the brand's dominant market status. CheezTwin, a cheese substitute, posted significant gains in sales and a two-point increase in market share.

Borden aseptically processed drink products, marketed under the Sippin' Pak, Bama, and Frosted brands, were expanded during the year with the test marketing of a line of 10% fruit drinks under the Wyler's name. The new line has already become the Number Two brand in its test area.

Bama jams and jellies remained the largest selling brand in its marketing region, the South and Southwest. Borden volume increased despite a decline of 5% for the overall category.

Snow's was the only brand of condensed clam chowder to register growth in 1985. It is the leading brand of premium chowder in the country.

Kava retained its unique status: the only brand of coffee that is 90% acid neutralized. This identity, conveyed in radio and print advertising, helped to sustain the brand's position in the highly competitive instant coffee category.

Volume sales of Cracker Jack brand candied popcorn advanced more than 25%. It was the only brand to show growth in market share and dollar sales, thereby substantially increasing its position versus the second-ranked brand. Significantly higher marketing support, through television advertising, and merchandising and special-pack programs, was responsible for the improvement. Cracker Jack popcorn and Campfire brand marshmallows maintained Number Two standing in their categories, despite sizeable spending by competitors.

DESSERTS AND BEVERAGES

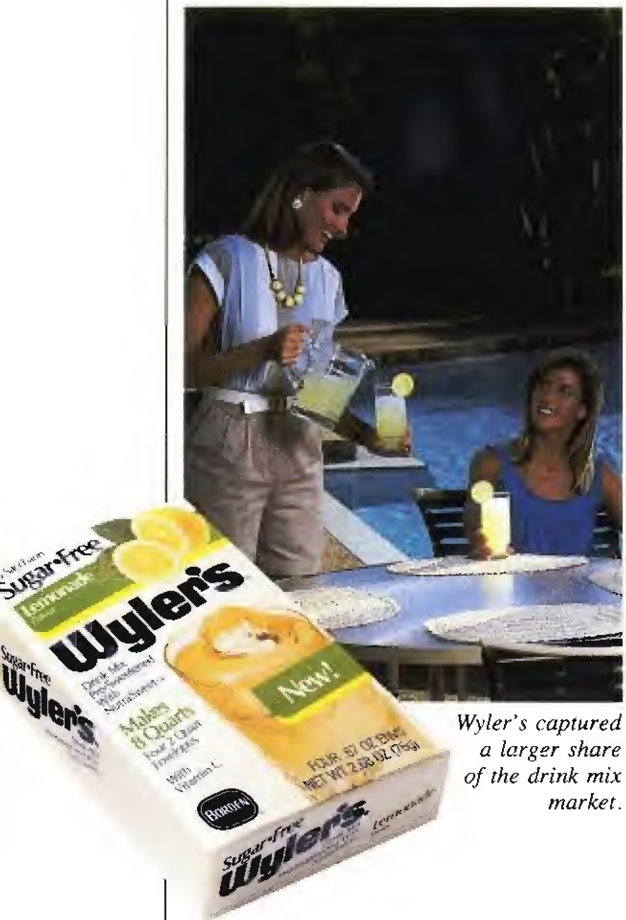
Sales of this group declined 8%; income, however, was up marginally.

Eagle Brand condensed milk, the company's original product, continued as a very important profit producer in 1985. Sales improved 6%. Eagle Brand's viability after more than 125 years on the market is the result of its positioning as a convenient dessert-maker; consequently, the annual Home for the Holidays program, with its advertising inserts and trade and retail promotions covering the period Thanksgiving through New Year's, has been a major stimulus to sales.

Packaging for Cremora non-dairy creamer was converted from glass to plastic. The new jar is the first wide-mouth PET container in commercial use. Its light weight and safety were welcomed by consumers and the trade and contributed to improved sales, as did a unique prepackaged shipper unit for retail customers, which capitalizes on the packaging features. Private label shipments of powdered creamer were up sharply with the addition of a major food chain's business. Bulk, industrial shipments grew and now exceed 2,000,000 pounds annually.

Volume and dollar sales of ReaLemon brand reconstituted juices improved substantially and share of market increased. Heavy seasonal promotions and the addition of mass-merchant retail outlets were primarily responsible for the gains.

Borden strengthened its Number Two market position in processed cheese.



Wyler's captured a larger share of the drink mix market.

None Such mincemeat volume and dollar sales showed healthy gains, extending a trend of recovery that began two years earlier following several years of decline.

Wyler's bouillon, the country's leading brand, posted increases in sales and income, benefiting from broader distribution.

The company's share of the drink mix market improved, even though dollar sales and volume declined. The total industry was down, reflecting large inventories carried from the prior year, but the Wyler brand succeeded in capturing market position from lower-ranking brands. Gains were registered by Wyler's Sugar Free mixes, sweetened with NutraSweet, and Wyler's Unsweetened; the increase for both product lines reflects a growing trend away from sugared items, especially among mothers of young children. In line with this trend, Wyler's presweetened mixes experienced a drop in dollar sales and volume, as did the entire sugar-based segment of the category.

CANADA

Sales of the Canadian consumer products operations declined slightly but income improved, benefiting from higher volume and, in the second half, from a more favorable exchange rate for the Canadian dollar. The Pasta and Home & Professional Products profit centers were the principal contributors to the improvement, following the addition of two major distribution outlets: Safeway in Western Canada, for the Creamette pasta brand, and Canadian Tire, the country's largest non-food retailer, for Elmer's brand adhesives.

PASTA

The division's Pasta unit had its most successful year ever, with sales up 35% and operating income up over 50% from a year earlier. On an ongoing basis, excluding acquisitions during 1984 and 1985, sales increased 10% and income, 27%, reflecting the growth of business in established markets and expansion into new areas by established brands. The unit's flagship brand, Creamette, posted a sales gain of 9%, and the Luxury brand, acquired in 1983, a gain of 6%. The pasta industry as a whole was up approximately 3% from a year earlier.

Two additional pasta producers were acquired during the year: Viviano Macaroni Company, of Carnegie, Pennsylvania, in August, and Anthony Macaroni Company, of Los Angeles, in November. Viviano Macaroni distributes dry boxed pasta under the Vimco brand in the Mid-Atlantic region, primarily Pennsylvania, Ohio, West Virginia, and Upstate New York. It also conducts a substantial business with institutional customers, and its expertise in that area will be drawn upon by Borden to expand with pasta in the growing foodservice segment. Anthony Macaroni's distribution, under the Anthony's brand, is primarily in Southern California markets. Viviano Macaroni was founded in 1898; Anthony Macaroni, in 1927. Vimco and Anthony's will continue as regional brands, complementing Creamette, Luxury, and Ronco.

The Vimco and Anthony's regional brands of pasta were acquired during the year, joining the flagship Creamette and regional Ronco and Luxury brands.

Among several new products introduced were rotini, wagon wheels, and medium shells under the Rainbow name, which refers to their colorful mixture of tomato-, spinach- and semolina-flavored pastas. These products are particularly well suited to salad use.

The Creamette pasta plant near Phoenix, Arizona, which went into production in August, 1983, will be expanded by 50%. The additional capacity will be directed to serve the increasing pasta volume in the important Western markets.

SPECIALTY PRODUCTS

Sales of this group were level with a year earlier; income increased over 14%.

The group has three profit centers: Industrial, which produces citrus concentrates and oils, cheese powders and concentrates, feed supplements, cheese substitutes, and cans; Vogel's, a foodservice distributorship, and Galloway-West, which produces custom-formulated milk products, cheese starter media, aseptically canned egg nog, Swiss cheese, and milk protein concentrate. The profit centers supply other Borden operations and also market their products, primarily to other food processors.

Elmer's cartridge caulking compounds have been a particular beneficiary of the rapid growth in do-it-yourself building adhesives.

Industrial's profits declined, despite healthy gains by its cheese-powder and feed-supplements operations. Its citrus operations' income was hurt by a severe shortage of lemons, which reduced plant output and raised purchase prices, and by a decline in shipments of drink-mix flavors. Overall Industrial sales increased 15%. A can-manufacturing plant operated by the profit center at Lyons, New York, was sold to

More than 100 toys that have appeared as "surprises" in boxes of Cracker Jack caramel popcorn since the first toy in 1912 are on display at the Please Touch Museum for Children in Philadelphia, as part of the museum's exhibit, "Children's Play: Past, Present, and Future."

Bama is the largest selling brand of jams and jellies in its marketing area, the South and Southwest.

Curtice Burns under a purchase option granted in 1979, when Curtice Burns acquired the Lyons-based Comstock canned fruit business from Borden.

Vogel's profits were up substantially on a slight gain in sales; the profit improvement resulted from major distribution-cost savings. Galloway-West posted a significant improvement in income, despite a decrease in sales, primarily because of higher shipments of egg nog, cheese starter media, and milk protein concentrate. The decline in sales related to changes in the Federal Government's milk support price.

HOME & PROFESSIONAL PRODUCTS

Sales of this group were up almost 6% and income was up almost 13%, both to new highs.

Elmer's brand products had a substantial rise in profits owing mainly to an improved product mix, which was achieved through maintenance of market share and distribution for mature products and increased market share and distribution for newer products that have been targeted for expansion. Among the most successful of the latter are building adhesives, a fast-growing category in the $60 billion do-it-yourself market. Elmer's cartridge caulking compounds have been a particular beneficiary of the emphasis given to building adhesives.

Elmer's Invisible Glove, a unique protective hand cream, was introduced in the second quarter. The product forms a dry, invisible coating that protects the hands while painting, gardening, or doing car repairs, and washes off easily with soap and water. Initial reaction by the trade has been excellent.

Krylon brand volume was up 5%. Income was down slightly from the record level of a year earlier as marketing expenditures were increased to maintain the Krylon presence in the face of unprecedented competition, and to firmly establish two major new product lines: aerosol Rust Magic, and brush-on Rust Magic, the Borden entries in the protective coatings segment.

While the total aerosol paint market declined, Krylon distribution in all retail outlets reached a new high, surpassing that of any other brand.

Income of the **Car Care** profit center more than doubled on a moderate increase in sales. Leading performers were the Rain Dance and Rally brands. Rain Dance car wax posted an 18% gain in volume and lifted its market share by 22%. Sales tripled for Rain Dance powdered car wash, a new product in beaded form packaged in a see-through jug. The Rally line was ahead 17% in sales, benefiting from the desire of retailers to hold down inventories by featuring the best-selling brands.

The #7 Brand line of car polishes, rubbing compounds and washes was repriced following a successful manufacturing cost-reduction program. As a result, a declining sales trend was reversed.

Sterling, which markets plastic school and office supplies, had a slight increase in unit and dollar sales, but a healthy increase in income. The gains were achieved despite intense foreign competition in basic school supplies and some desk accessories. Increased productivity and stable raw materials costs accounted for the higher income.

Packaging for Cremora non-dairy creamer was converted from glass to plastic. The light-weight and safe jar is the first wide-mouth PET container in commercial use.

Krylon distribution in all retail outlets reached a new high, exceeding that of any other brand of spray paints and coatings.

A full line of Borden products meets the fast-changing demands of the ice cream industry.

Borden Dairy Division

	1985	1984
Sales (in Millions)	$1,248.2	$1,192.0
% of Total Sales	26%	26%
Operating Income (in Millions)	$73.8	$59.9
% of Total Income from Operations	18%	15%

The Dairy Division achieved record results in 1985. Operating income was up 23.3% on a sales increase of 4.7%. Fluid milk volume increased 5%, double that of the industry; ice cream volume was flat, the same as the industry.

The substantial improvement in margins was the result of several factors: significantly higher manufacturing and distribution efficiency owing to plant consolidations and new facilities, increased market share, new products, acquisitions, general cost reductions, and more favorable raw material costs.

The division's whole milk sales were up almost 2%, whereas the

industry recorded no change for the segment. Sales of lowfat milk products increased almost 14% for the division, against 5% for the industry. Borden Hi-Protein lowfat milk posted a 10% gain in sales, solidifying its standing as the best-selling premium lowfat milk in the country.

Cottage cheese sales were flat for the industry, but the division's sales showed good growth, with gains for both Lite-line brand lowfat cottage cheese and bulk cottage cheese sold to foodservice accounts. Sour cream sales were substantially ahead of a year earlier, benefiting from the increasing popularity of ethnic recipes.

Fresh orange juice sales rebounded in the second half, as the industry recovered from a severe freeze in Florida. The loss of a substantial part of the orange crop early in the year had pushed retail prices to near-record levels.

Significant gains were made in private-label dairy business. Such business adds to plant efficiencies and strengthens the division's position with major grocery accounts.

Per capita consumption of premium ice cream and novelties showed further increases in 1985. The division made good gains in the premium novelty category; a distribution agreement with Chipwich in 1984 was expanded in 1985 and sales exceeded expectations.

Borden ice cream mix, sold to fast food outlets, again recorded double-digit increases. Ice cream mix has become a significant product category for the division, and facilities for its manufacture have been expanded at several locations.

Two acquisitions added to the division's volume and efficiency. The Sealtest dairy in Miami, Florida, was acquired in December, 1984. Production at an existing, older and less favorably located Borden plant was transferred to the purchased plant, and throughput increased 30%. The business of Detroit Pure Milk, which serves Farmer Jack Supermarkets, was acquired in September and the account assigned to the Borden Detroit dairy, where throughput has increased 50%.

With year-long support from an aggressive advertising and promotion program, the division established a leading position for the Borden brand in the El Paso, Texas, market, following the introduction of a full line of milk and ice cream products in mid 1984. A "Borden Gang" that was formed as a promotion vehicle has signed over 100,000 youngsters as members; they are entitled to discounts on movies, amusement parks, and all University of Texas El Paso sporting events.

The division's newest and the country's most modern ice cream production facility went into operation in the fall at Houston, Texas. It replaces a plant that was destroyed in December, 1983. The new facility's enormous capacity—the equivalent of 20 million gallons per year—has enabled the division to consolidate at this one location the production volume previously handled at several smaller ice cream plants in the Southwest. In addition, Houston will be the source of specialized frozen novelties for the entire division.

The milk operations in Dallas, Texas, were moved early in the year to a facility within the city that was purchased earlier from Metzger Dairy and subsequently modernized and enlarged. The site of the previous plant, in downtown Dallas,

Borden Hi-Protein lowfat milk, up 10% in sales, is the country's best-selling premium lowfat milk.

The Dairy Division's volume sales of fluid milk increased 5%, double the increase reported for the industry.

was sold in 1983; it is being developed as part of the Dallas Arts District.

The plant and property of Superior Dairies, Inc., a Borden subsidiary in Austin, Texas, was donated to the University of Texas at Austin. Superior Dairies will continue to operate from the plant during the construction of a new facility in Austin, at a location more central to the dairy's distribution area.

Significant production efficiencies were achieved by the closing of three milk plants and incorporating the volume at plants within their respective distribution areas. Volume at Lake Charles, Louisiana, was assigned to Lafayette, Louisiana; at Abilene, Texas, to Dallas and Lubbock, Texas, and at Tallahassee, Florida, to Pensacola, Florida, and Macon, Georgia.

Milk storage facilities were expanded at Albuquerque, New Mexico; Macon, Georgia, and Tampa, Florida. Ice cream storage was expanded at El Paso and San Antonio, Texas.

In anticipation of the Federal Food and Drug Administration's approval of aspartame sweetener in dairy products, the division has developed several items using this ingredient, including yogurt and chocolate milk. F.D.A. approval is expected in 1986.

Capitalizing on its experience in developing several strong ice cream brands and many successful new ice cream products, the division is drawing up plans to license total ice cream programs that will include formulas, package design, and marketing strategies. The licensing will cover a full range of ice cream and frozen dessert items, among them Frostick novelties, Juice Stix, Twin Pops, and Fudge Bars, along with Cracker Jack Bars which are to be introduced.

Consumer research and product testing are underway for a new product that will also capitalize on extensive Borden experience: Eagle Brand ice cream. In concept testing, consumers expressed strong interest in a premium quality product made with Eagle Brand sweetened condensed milk and exhibiting the characteristics of "home made" ice cream. Product development, coordinated by the Gail Borden Research Centre in Syracuse, New York, was near completion at year end; test marketing is scheduled for 1986.

Three-pack Lite-line brand yogurt is being tested in Florida markets and initial sales have exceeded projections. Citrus Punch, a new product, will be test marketed in Florida in 1986.

Elsie the Cow was again at the center of the division's advertising, merchandising, and public relations activities as a symbol of wholesomeness, freshness and quality. She was featured in a division-wide advertising campaign on radio that began at mid year and will continue through 1986; the Elsie Daisy appeared on more food packages than any other product symbol, and the live Elsie Tour traveled to more Borden markets than ever before. Her visits to children's hospitals, participation in local civic events and parades, and appearances at major food conventions attracted highly favorable coverage by the media. Elsie will be the focal point of all the division's promotional efforts in 1986, her 50th anniversary. Elsie first appeared, as a cartoon character, in a New York medical journal.

Borden cottage cheese showed good gains in an industry segment that was flat with a year earlier.

Borden snack sales reached an all-time high.

Borden Snacks and International Consumer Products Division

	1985	1984
Sales (in Millions)	$980.8	$969.8
% of Total Sales	21%	21%
Operating Income (in Millions)	$87.5	$91.8
% of Total Income from Operations	22%	23%

The Snacks and International Consumer Products Division was formed October 1 upon the combination of the domestic snacks, bakery, and Puerto Rican operations with certain operations, primarily consumer products, of the former International Division.

Sales of the division increased 1.1%; operating income declined 4.7%. Domestic sales totaled $619.8 million, up 2.1% from $607.2 million a year earlier; domestic operating income was up 11.1%, to $41.3 million from $37.2 million. The Drake bakery operations were primarily responsible for the improvement. International sales were

$361.0 million, off 0.4% from $362.6 million a year earlier. International operating income was $46.1 million, down 15.5% from $54.6 million. Whole milk powder exports had substantially higher profits, which were more than offset by lower income from the Far East operations.

DOMESTIC OPERATIONS

SNACKS

Snack sales reached an all-time high. The gain, although slight, was achieved in the face of unprecedented competitive pressure and without the benefit, as in prior years, of either acquisitions or entry into new markets. The competitive pressure came from two sources: new products introduced by other major manufacturers, and geographical expansion into strong Borden markets by regional snack companies. In response, the Snacks Group invested heavily in product line innovation and expansion, and increased marketing expenditures 11% above the record outlays of a year earlier. As a consequence of these higher costs, income of the group declined, by less than 5%.

New York Deli brand potato chips were introduced in the Metropolitan New York area early in the year and won quick acceptance from the grocery trade and consumers. The extra-crisp chips match the distinctive flavor and appearance of kettle-cooked potato chips, but are made by a unique, Borden-developed process. Their success in New York prompted test marketing in Dallas, Texas; Milwaukee, Wisconsin, and Columbus, Ohio, with equally favorable results. Further expansion is scheduled for 1986.

Increased distribution through major supermarket chains helped lift unit sales of Drake's cakes 8%.

Sales of La Famous Tortilla Chips increased more than 50%, following their expansion into Borden snack markets during the year. Unlike other tortilla chips, the unique, pie-shaped La Famous brand is packaged in a 16-oz. clear plastic bag with twist-tie closure, and the size and packaging have been among its most appealing features to consumers. Television advertising was tested in several of the brand's more mature markets, and sales in these markets increased by more than one-third, despite the appearance of numerous competitive products.

Pretzels accounted for the third major product line expansion by the Snacks Group. A second pretzel oven became fully operational at Seyfert Foods' plant in Ft. Wayne, Indiana. The expansion enabled the plant to supply the needs of the group's seven regional profit centers and resulted in a 20% volume increase in pretzel sales from a year earlier. Seyfert's Real Butter Pretzels are the only all-butter pretzels marketed throughout most of the United States.

Among major capital projects by the Snacks Group were the construction of a finished goods warehouse in Berwick, Pennsylvania, that improves product handling, and the installation at several plants of computerized weighing/packing equipment that virtually eliminates underweight and overweight bags. Twenty-five units were purchased at a cost of $3 million.

Coco Lopez is the leading brand of coconut products in both "off premise" and "on premise" sales.

BAKERY

The Bakery profit center markets cakes, pies and cookies, primarily under the Drake's brand,

in a 13-state area from Maine to Florida. It posted almost a 20% increase in operating income on a 9% increase in sales. Unit volume was up 8%. The improvement in margins was the result of record-high manufacturing efficiency and stable commodity prices. Unit volume benefited from a substantial increase in sales to major supermarket chains and deeper market penetration. Sixteen new or improved products were introduced during the year.

COCO LOPEZ SALES

Coco Lopez Sales consists of a network of almost a hundred wholesale and foodservice distributors who sell Coco Lopez-brand products, which are manufactured in Puerto Rico by Industrias LaFamosa, to mainland supermarkets, hotels, restaurants, and, where state laws permit, liquor store outlets. Coco Lopez is the leading brand of coconut products in both "off premise" and "on premise" sales. Dollar sales were down 2%, but unit sales were up 5%, largely as a result of successfully promoting the products as non-alcoholic beverages and recipe ingredients.

PUERTO RICO

The Puerto Rico Group consists of three profit centers: Borden Puerto Rico, which markets consumer products, fresh meat and frozen foods throughout the Caribbean; Caribbean Snacks; and Industrias La Famosa, which processes Coco Lopez brand coconut products, juices and nectars. The group's sales were up marginally, but income increased by 11%, largely owing to general cost reductions. Profits of Borden Puerto Rico and Industrias La Famosa were well ahead of a year earlier, but those of Caribbean Snacks were off sharply, owing to severe competition from a major manufacturer. Caribbean Snacks will install custom-made equipment for inserting "instant prizes" in snack packages; the prizes will provide an excellent promotional device for the Borden Filler brand. The first promotion is scheduled for March, 1986.

INTERNATIONAL CONSUMER PRODUCTS OPERATIONS

MILK POWDER

Export—Exports of KLIM brand powdered milk are supplied from plants in Denmark, Ireland, Panama and New Zealand. Exports account for about two-thirds of total Borden sales of powdered milk in international markets; the remaining one-third is generated by local plants serving local markets, primarily in Colombia.

The volume of KLIM exports increased over 20% from a year earlier, resulting in a significant improvement in market share as the world market for milk powder remained unchanged. Sales were up 13% and income climbed almost 28%, both to new highs. The improved margins were due to substantially higher sales to the Far East. Shipments to Taiwan were up significantly, and those to Malaysia, Hong Kong, and Thailand were well ahead of a year earlier. Markets were established or reopened in the People's Republic of China, the Philippines, Bangladesh, Sudan, Nigeria, Bolivia, and Mexico, and new distributors were appointed in six countries.

Colombia—Volume sales of the Colombia milk powder operations were unchanged from 1984. Shipments were depressed in the first half by a shortage of stocks, the result of a strike in late 1984, and a severe drought in early 1985 that cut milk supplies. The lost volume was recovered in the second half in spite of generally unfavorable economic conditions, and margins were maintained. Sales improved substantially in local currency, owing to price increases in line with the local inflation rate, but declined in U.S. dollars because of a 50% devaluation of the Colombian peso.

In Barcelona, Spain, a vendor offers flat and wavy potato chips made by Crecspan, the Borden Spanish snacks subsidiary.

EUROPE

Foods–Spain—Income of the Spanish food affiliate, Gallina Blanca, increased more than 13% on a 7% increase in sales. Growth of its two major domestic product lines—bouillon broth and dehydrated soup—exceeded that of the market. All other domestic product lines also posted gains in sales and volume. Its export business, in Jumbo Cube bouillon, was unchanged despite the imposition of severe import restrictions by Nigeria, a major market. The loss there was made up with the opening of new markets in the Caribbean and Middle East.

A new bouillon broth line, with a capacity of 100 million liters annually, went into operation in November.

Snacks–Spain—Crecspan, the Spanish snacks affiliate, manufactures potato chips, corn snacks, children's cakes, and croissants. Its sales declined 15%, with the largest decrease in the cake segment, where the total market was down 20%. Market share was maintained in potato chips, and slipped slightly in corn-based items. Volume in croissants, however, increased 11% to match the capacity of the present production facilities.

Casera, a new, thicker-cut potato chip, packaged in foil, was well received following its market introduction in September. Its technology and packaging were developed for the highly successful Cottage Fries marketed by the domestic Snacks Group.

Bakery–West Germany—The West German bakery operations posted almost a 17% gain in operating income on an 8% gain in sales. The results reflected the acquisition, in early 1985, of a chain of 74 retail bakery outlets in the area of Hamburg. These "corner bakeries," in offering a full range of non-packaged, preservative-free baked goods, complement the commercial bakery operations of Weber, the largest commercial bakery in West Germany. Weber in early 1986 will start production of a line of croissants and Danish pastry, to be marketed as Brown and Serve and dough pieces. They will be shelf items, whereas the principal competition is in deep-frozen items imported from France.

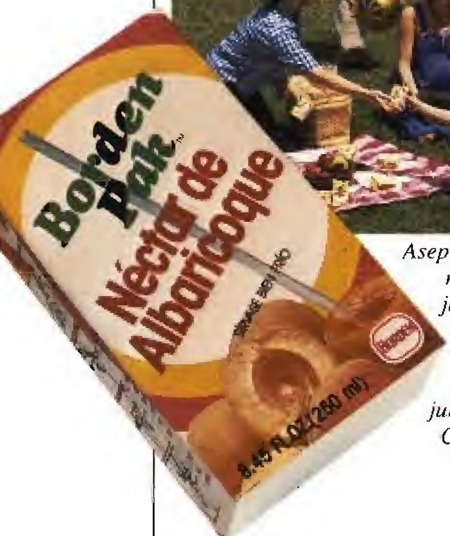
Foods–Belgium—Substantial volume gains for ReaLemon reconstituted lemon juice, Hemo fortified chocolate drink mix, and confectionery products enabled the Belgian bakery and grocery operations to register a 4% gain in dollar sales. Income, however, declined 31%, primarily because of a 65% increase in the cost of lemon juice concentrate.

The Suzy bakery operation added almost a point to its already-dominant share of the waffle market, owing to a good gain in domestic shipments. The total market was unchanged from a year earlier. Suzy added two new varieties of sugar waffles, and early in 1986 will begin production on newly installed equipment of small flash-frozen waffles, which will be directed primarily to the West German market.

A new confectionery manufacturing line went into operation in November, replacing smaller and older facilities. Four new chocolate confectionery products were launched in the U.K., the Netherlands, West Germany, Austria, and Finland. ReaLemon reconstituted lemon juice was introduced in the Netherlands and Italy, and Hemo fortified chocolate drink mix began test marketing in Trinidad.

Non-Food Consumer Products–United Kingdom—Under the Humbrol brand, Borden markets the largest-selling line of model paints in Europe and a leading line of plastic model kits in the U.K. Sales of the brand increased 12%; however, income declined by 4%. Reflected in the results were new-product introductions, including several highly crafted model kits and a range of non-toxic acrylic hobby paints for use on children's products and in nurseries, and the addition of major sales outlets, among them Toys "R" Us.

A new aerosol paint line will begin production early in 1986, dou-



Aseptically packaged nectars and fruit juices, processed by Borden in Panama, are the only aseptic juices marketed in Central America.

bling capacity. The expansion will enable Humbrol to extend the range of hobby paints offered in Europe and provide capacity for the European manufacture of Krylon spray paints.

Non-Food Consumer Products–France—Under the Heller brand, Borden markets the largest-selling line of plastic model kits in France, with more than half the market. Although sales of the brand were up marginally, income was down by 36%.

LATIN AMERICA

Ecuador–Snacks—A potato chip company acquired in mid 1984 and a corn chip company acquired in February were combined to form Nutrinsa. Reflecting the later acquisition and almost full-year operation, sales increased seven fold and income, four fold, from 1984, despite a substantial increase in the price of raw potatoes and a 20% currency devaluation.

FAR EAST

For administrative purposes, the Far East encompasses both chemical and consumer products operations.

Australia—A 20% depreciation of the Australian dollar, a loss in position in the particleboard market to lower-priced resins imported from Singapore, and withdrawal from the manufacture of polyvinyl acetate adhesives led to lower results. Sales were down 25%, and income was down 50%, in U.S. dollars. Despite a highly competitive environment, the operations' major product lines—petrochemicals, industrial resins, and Resinite PVC films—improved their market shares, attaining significant sales increases in local currency.

Malaysia—Sales declined 28% and income, 76%, as a result of sharply curtailed resin shipments to Indonesia, the operations' major export market, where a sizeable local industry has developed. Leadership in the local market was maintained in all principal resin lines, with higher sales. At year end, the operations obtained a major contract to supply urea formaldehyde concentrates to the country's first fertilizer plant.

The Philippines—The prolonged shutdown of six major local plywood mills because of unsettled conditions, aggressive competition from European suppliers, and depressed prices for plywood in the world market led to a 5% decline in dollar sales and a 33% decline in income.

Japan—Hitachi-Borden, a joint venture producing Resinite films, recorded record dollar and unit sales but income declined 48%. Sales benefited from a substantial increase in shipments of consumer-size wrapping films. Production of Rain Dance brand paste car wax and Gasoline Helper began in March.

—Lady Borden ice cream held its leading position in the quality sector of the market despite competitors' introductions of "super premium" products. Sales were up almost 5% in a market that was about level with a year earlier. Premium frozen novelties and super premium ice cream will be introduced under the Lady Borden brand in March, 1986.

—Volume sales of cheese declined about 10%, reflecting a downward trend in consumption. Further affecting dollar sales and margins adversely were a depreciating yen and competitive pressures within a smaller market; sales were down about 13%.

Lacsa, the airline of Costa Rica, serves Borden milk products, processed by Lactaria Costarricense, S.A., San Jose, Costa Rica.

Kangaroos frolic on the lawn of the Borden formaldehyde and resins plant in Brisbane, Queensland, Australia. The plant supplies resin adhesives to the plywood and particleboard industries in Queensland, and resins for export to Papua New Guinea.

A new co-generation plant at Geismar, Louisiana, provides the petrochemical complex with 20 megawatts of electrical power and 250,000 pounds per hour of high-pressure steam.

Borden Chemical Division Domestic and International

	1985	1984
Sales (in Millions)	$1,353.5	$1,271.5
% of Total Sales	29%	28%
Operating Income (in Millions)	$98.6	$120.2
% of Total Income from Operations	25%	31%

The Chemical Division Domestic and International was formed October 1 when the former domestic Chemical Division absorbed certain operations, primarily chemical, of the former International Division.

Sales of the division increased 6.4%, but operating income declined 18.0%, from a year earlier. Domestic sales totaled $998.4 million, up 8.2% from $922.9 million in 1984. Domestic operating income was $79.9 million, down 18.0% from $97.4 million as restated for a change in accounting for oil and gas operations, effective July 1, 1985. International sales increased 1.8%, to $355.0 million from $348.6 mil-

lion, while international operating income declined 17.8%, to $18.7 million from $22.8 million.

Domestic sales benefited primarily from the acquisition in April of the Crown and Sunworthy wallcovering operations of Reed International PLC, and substantially higher trade sales of basic chemicals. Basic chemicals, however, were by far the principal cause of the drop in domestic income, owing to lower selling prices and sharply reduced margins. The Vinyl Resins and Plastic Products groups achieved substantial profit gains, the former because of a turnaround in PVC resins and the latter because of Crown/Sunworthy and a strong performance in plastic packaging films. The increase in international sales reflected a substantial improvement by the European chemical operations, which also registered the largest gain in income. The gain was offset, however, by a significant decline in profits of the operations in Latin America South.

DOMESTIC OPERATIONS

THERMOSETTING RESINS

Resins & Chemicals—This profit center markets formaldehyde-based urea and phenolic resin adhesives to the wood products industry and formaldehyde to other chemical manufacturers.

Sales and income reached record levels. Unit volume gains, coupled with increased plant efficiencies, offset declines in selling prices. Prices were depressed by an industry oversupply of methanol and urea, two basic raw materials, and competition among suppliers to maintain market position. The profit center increased its share of market.

The gains in unit sales reflected the continued vigor of the total wood products industry, and especially expansion in waferboard and oriented strandboard, high-strength products used in construction that are less costly than plywood. To meet the demands of this expanding market, the profit center has developed new liquid and spray-dried phenolic resins. Although the industry is divided in the use of liquid and dry phenolic resins for waferboard and oriented strandboard, Resins & Chemicals is able to provide both.

The profit center has two major capital projects underway: a recently completed formaldehyde plant at Geismar, Louisiana, that will go into full production in the first quarter of 1986, and a resin plant in Michigan, scheduled for completion in mid-1987.

Industrial Resins—This profit center markets liquid and dry phenolic resins used in a variety of applications—primarily foundry-mold binders, friction and abrasive materials, and insulating and acoustical products.

Sales and operating income were down from the record levels of a year earlier, as foreign and domestic suppliers competed aggressively in a declining industrial economy. The market segments encompassed by the phenolics industry showed varying degrees of strength. The automotive market maintained the high level of activity achieved in 1984; the home insulation market was essentially flat because home renovation peaked and housing starts were up only marginally; the abrasives market was down because of an incursion of foreign suppliers, and the friction-materials market declined because advances in technology increased product life.

The profit center began the commercial introduction of unique, patented "ester cured" phenolic resins for use by the foundry industry. These new resins, developed by the division's U.K. operations, are expected to generate a significant contribution to margins in 1986.

American Pharmaseal Company, division of American Hospital Supply Corporation, Valencia, California, one of the world's leading producers of hospital supplies, uses Borden specialty adhesives in fabricating such disposable products as operating room gowns and patient drapes.

Borden supplies resin adhesives to Trus Joist Corporation, Boise, Idaho, for its Residential TJI® floor joists.

Bruce Foster, design co-ordinator for Columbus Coated Fabrics, reviews a forthcoming pattern for Wall-Tex wallcoverings. Borden became the world's largest producer of decorative wallcoverings with the acquisition of the Crown and Sunworthy operations of Reed International PLC.

Adhesives and Graphics—This profit center markets specialty adhesives and binders for the furniture, building-supply, packaging and paper industries, and printing inks for the publishing and packaging industries.

Adhesives sales remained at prior year levels with decreases in general industrial adhesives offset by increased volume of urea formaldehyde binder for fiberglass roofing shingles. The Graphics unit discontinued the manufacture and sale of high volume but low margin publication inks, helping margin but reducing volume. Sales and income of ultra-violet curable inks and coatings doubled.

The profit center has undertaken a program to improve the product mix of its two sectors. The Adhesives operations, while maintaining their traditional markets in industrial wood glues, are emphasizing faster-growing specialty products—packaging adhesives for case and carton sealing and for labeling, hot-melt adhesives for book binding, and binders for non-woven disposable materials. The Graphics operations are focusing on water-based ink systems for imprinting milk cartons and corrugated containers.

The consolidation of several Adhesives and Graphics plants was carried out late in the year, which will contribute to improved operating efficiency in 1986.

CANADA

The Canadian operations had record sales and income, in spite of a further decline in the value of the Canadian dollar. Sales of thermosetting resins to the forest products industry were up significantly, responding to higher housing starts and the introduction of improved products. Sales of urea formaldehyde concentrates to the fertilizer industry declined slightly, due to poor markets in the second half. A major expansion of resin production capacity at the Montreal, Quebec, plant came on stream in the fourth quarter.

Sales of Loadmaster pallet wrap more than doubled; sales of Resinite PVC films for foodwrap applications showed a moderate increase. A new plant producing Loadmaster films will begin operation in early 1986 at Toronto, Ontario, more than tripling production capacity.

THERMOPLASTIC RESINS

PVC Resins—The division's PVC operation converts vinyl chloride monomer into polyvinyl chloride (PVC) resins, which are used internally in the manufacture of vinyl plastic products and sold to other manufacturers of vinyl goods, such as siding, flooring, pipe, and electrical insulation. It operates PVC plants at Geismar, Louisiana, and Illiopolis, Illinois.

The operation posted a slight increase in sales but achieved a significant turnaround in operating income from a year earlier. Sales benefited from generally higher selling prices, and from an improvement in market share that was obtained despite a 2% decline in demand for domestically produced PVC resins from a record 6.7 billion pounds in 1984. Operating income increased because of a shift in product mix to higher-margin specialties and lower manufacturing costs. Economies of scale resulting from record output at the two PVC plants, and better energy utilization, accounted for the reduction in manufacturing costs. The operation's fully-computerized Geismar plant is the most cost-efficient PVC plant in the world; its Illiopolis plant is a world-class facility, with large-kettle reactors producing specialty resins.

Polyco—This profit center produces polyvinyl acetate latexes, under the Polyco trademark, for the paper coating, paint, and adhesives industries. These markets were adversely affected by competitive pressures, which led to price erosion. Improved cost efficiencies, however, obtained from near-capacity operation of Polyco's two manufacturing plants, at Compton, California, and Illiopolis, mitigated

Particleboard cores undergo secondary laminating at U.S. Plywood Corp. plant in Orangeburg, South Carolina. The cores are made with Borden urea formaldehyde resins.

the effects of the price erosion. Despite the softening market, Polyco broadened its customer base. A new joint cement, Polyco 2126, was introduced and well received.

PLASTIC PRODUCTS

Borden became the world's largest producer of decorative wallcoverings with the acquisition in April of the Crown and Sunworthy wallcovering operations of Reed International PLC. Crown is the largest manufacturer of wallcoverings in the United Kingdom; Sunworthy is a leading producer in Canada and operates a major distributorship in the United States, Sunwall of America. Prior to the acquisition, Borden was already a leading supplier of cloth-backed and paper-backed vinyl wallcoverings through its Columbus Coated Fabrics operation in Ohio. Crown and Sunworthy add significant capacity in paper-backed vinyl products, contribute to manufacturing efficiency, provide a larger internal outlet for Borden PVC resins, and, through Sunwall of America, establish a distributor network for the promotion of all three lines.

Columbus Coated Fabrics—CCF, in addition to consumer wallcoverings, manufactures commercial wallcoverings, calendered vinyl for the automotive industry, and laminating vinyls used by the building, appliance, and electronics industries. CCF's sales and income declined from the high levels of a year earlier, primarily because of inroads by imported products and non-vinyl laminates. Commercial wallcoverings showed good growth, reflecting a high level of activity in office-building and apartment construction and renovation. Recovery in the U.S. automotive industry led to a substantial increase in sales to that market. Adversely affected were sales to the appliance industry, because of imports of finished and semi-finished products, and sales to the electronics industry, because of competition from thin plastic veneers and printed paper.

Vernon Plastics/Fabric Leather—Vernon Plastics supplies calendered vinyl for the bookbinding, small-goods, and industrial fabrics markets. Fabric Leather supplies expanded vinyl to manufacturers of upholstered furniture, footwear, handbags, luggage, and sporting goods.

Vernon Plastics had moderately lower volume, but income increased substantially from a year earlier, the result of a better product mix and major improvements in equipment that lowered manufacturing costs and tightened control of raw material usage. The unit became the first domestic producer of wide-width industrial fabrics with the installation of equipment that calenders, prints and laminates industrial vinyl fabrics up to 78 inches wide. This capability has opened new markets for such applications as industrial tents, marine topping, awnings, and the military.

Fabric Leather's results were down moderately from a year earlier, reflecting the continued pressures its segment of industry has been under from lower priced imports and a fashion trend away from expanded vinyl to woven fabrics. Sales to the upholstered

Palletized materials of different shapes and sizes are easily handled by Loadmaster, a high-quality pallet-wrap film made from linear low-density polyethylene. A third Loadmaster manufacturing plant went into operation at year end in Texas.

furniture and footwear industries increased, but those to the handbag and luggage industries were severely affected by imports of finished products.

Resinite—The Resinite operation produces PVC packaging films under the Resinite brand, and linear low-density polyethylene films under the Loadmaster brand. Its results were at an all-time high. Volume sales of Resinite products to the institutional market were up substantially, while those to supermarkets were about level with a year earlier. Major growth was achieved in the industrial market owing to the outstanding success of Loadmaster pallet wrap film, introduced in 1983. Production capacity for Loadmaster was increased 50% in the first half with expansions at North Andover, Massachusetts, and Griffin, Georgia. The added volume was almost totally sold out by year end. In late December, a third Loadmaster plant went into production at Gainesville, Texas. The increased capacity will enable the unit to meet projected demand in 1986.

Proponite—This operation produces oriented polypropylene film under the Proponite brand for use in snack food, bakery, and industrial packaging applications. It posted new highs in sales and income, aided in large part by the introduction of Proponite AP-1 film. This new product is tailored for use by converters in laminating applications, yielding two surfaces of differing characteristics —one that accepts a wide range of solvent- and water-based inks, and another that provides the necessary "slip" for high-speed filling of the finished package.

Manufacturing capacity for Proponite was increased 70% in December when a new production line went into operation at North Andover, Massachusetts.

BASIC CHEMICALS

The Basic Chemicals operation is responsible for the division's petrochemical complex in Geismar, Louisiana, which produces such "building block" chemicals as acetylene, methanol, ammonia, urea, and vinyl chloride monomer, as well as industrial gases. About 70% of the output is used internally, and the remainder is sold to other manufacturers through the division's Petrochemical Marketing operations.

Basic Chemicals had the highest production volume in its history: over 3.75 billion pounds. The improvement was due to a record "on stream" time for the manufacturing operations, and the most efficient utilization ever of raw materials. Peak production and high utilization resulted in lower unit costs than a year earlier, but a further deterioration in the merchant market for basic chemicals eroded selling prices and margins, resulting in a substantial decline in operating income. Whereas Petrochemical Marketing's volume trade sales of ammonia, urea, and methanol were up more than 40% from 1984, prices were down 13% to 15% under severe pressure from imported products, which had the benefit of a strong dollar and, in some cases, duty-free status.

A co-generation unit went into production before mid year, providing over 20 megawatts of electrical power and 250,000 pounds per hour of high-pressure steam for the Geismar complex at annual savings of $4.5 million.

At year end, construction was underway on a cryogenic air-separation unit owned by Borden and two participants in its Petrocondo program, BASF Wyandotte Corp. and Liquid Air Corp. The unit will produce liquid argon, oxygen, and nitrogen for use on site and for sale. Completion is scheduled

for mid 1986. In November, the company, in another Petro-condo project, sold an interest in two air-separation units at Geismar to BASF Wyandotte and Liquid Air, and will join the two other chemical concerns in building a gas turbine, an air compressor, a generator, an air separation unit, and a gas liquifier facility at the complex at a total investment of more than $35 million.

The Petro-condo program is a strategy to improve the return on investment in the Geismar complex and to reduce the effect of market cycles on the division's operations by selling interests in the manufacturing plants or entering into long-term supply arrangements for their output. Additionally, the company forms partnerships with other chemical companies to build facilities on the site. As operator of the plants, Borden receives management fees from the partners and shares, on a profit basis, raw materials and such support facilities as steam, electricity, and waste disposal. Four Petro-condo projects, involving two asset sales and two new facilities producing industrial gases, have been arranged thus far, with BASF Wyandotte and Liquid Air.

INTERNATIONAL CHEMICAL OPERATIONS

EUROPE

Industrial Products Group— This group produces a range of thermosetting resin products at operations in the United Kingdom, France, and Spain. Its sales increased in local currencies but were unchanged in dollars. Operating income, however, increased substantially, with all three units of the group showing improvement. Sales growth was affected by a decline in the foundry and shoe markets in Europe and the divestment of furane-based resins in the U.K. Income benefited from major cost reduction programs at all three units, and from improved margins obtained through process changes, price increases, and lower raw material costs resulting from more highly coordinated purchasing.

New ester-cured foundry products developed by Borden U.K. gained wide acceptance throughout Europe because of their improved

The PVC resins plant at Geismar, Louisiana, had record output during the year.

performance, workplace safety, and economy compared with competitive products. Industrial tapes were introduced to the Spanish market by Borden Espana; they are manufactured by the group's Barnier operation in France.

Thermoplastics Group—This group produces Resinite brand PVC packaging films at plants in the U.K., France, and Spain, and rigid and flexible films at plants in the Netherlands, Belgium, and the U.K. Both dollar sales and operating income improved markedly.

Resinite's volume and income held at year-earlier levels, even though some manufacturing lines were down for several months during a consolidation of Norwegian and French operations at a new plant in France. The plant began production in the third quarter.

The Dutch flexible and rigid film operations posted a moderate gain in volume and income, mainly as a result of strong sales of linear low-density polyethylene pallet wrap and improvements in efficiency that benefited margins.

A flexible-film conversion operation in Mons, Belgium, was

Parallam™ parallel strand lumber, a revolutionary new timber product invented and developed by MacMillan Bloedel Limited, one of Canada's largest forest products companies, has been designed to replace conventional lumber in structural applications. It is made with resin adhesives supplied by the Borden plant in Vancouver, British Columbia.

acquired in May. The rigid-film operations in the U.K. posted a gain in operating income.

LATIN AMERICA

Latin America South—For administrative purposes, Latin America South encompasses both chemical and consumer products operations.

The Argentine chemical operations were severely affected by the government's austerity program, with dollar sales and income down substantially, despite personnel reductions and tight cash management. In Brazil, the freezing of many industrial prices and a resurgence of inflation brought a sharp drop in chemical income, despite a 10% increase in volume and an almost equal increase in dollar sales. A line of household paints and the patented ester-cured foundry resins were introduced. Government policies implemented early in the year to reduce inflation had a significant adverse effect on the performance of the Brazilian pasta operation. Sales of pasta in dollars declined 8%, owing to lower disposable consumer income. Margins were severely squeezed by a government-imposed freeze on selling prices from March to September, as a result of which operating income fell drastically. The operating income of the small Uruguayan chemical operation improved significantly on almost an 80% gain in sales.

Latin America North—The Colombian chemical operations had record results, with dollar sales up 9% and operating income up 3%, despite a 50% devaluation of the Colombian peso. Price increases, manufacturing cost reductions, and sales emphasis on high value-added products were behind the rise in income. In Ecuador, price increases and the highly favorable market acceptance of car-care products generated a 24% increase in dollar sales and a 3% increase in income, despite a substantial drop in shipments of urea formaldehyde resins, the operation's principal product line.

CAN MACHINERY OPERATIONS

This group, which manufactures can-making and can-testing equipment at plants in Colorado and New York, posted a substantial gain in income without raising selling prices, owing to increased sales of parts and higher-margin machines and improved efficiency. Results for 1985 were augmented by the introduction and acceptance by the industry of a new ultra high-speed six-color decorator and base coater. A multi-million dollar order was received in December. A beachhead in the plastics industry was achieved with the first sale of a new high-speed bottle tester.

Vinyl window frames are a growing specialty market for Borden PVC resins.

A high-pressure distillation column at the fabrication shop of Liquid Air Corp. in Montreal, Quebec. Used to split chilled air into oxygen, nitrogen, and other gases, it is being installed in an air separation plant at the Borden petrochemical complex in Louisiana. The plant is a Petro-condo in which Borden, Liquid Air, and BASF Wyandotte Corp. share ownership.

Social Responsibility

The company's commitment to promoting accepted social goals was reflected in its own grant-making activities in Borden communities and through the diverse interests and participation of its employees.

The Borden Foundation, the principal conduit for the company's charitable contributions, emphasized health and higher education in its donation program. The Foundation awarded grants to 99 health and welfare groups. Continued Borden support of the Independent College Funds of America, Inc. and the United Negro College Fund, Inc. assisted 633 institutions of higher education.

The Matching Gifts Program enabled the company to double the contributions of its employees to higher education, health care organizations, and the performing and cultural arts. Employee participation in the program increased 22%, and the value of gifts increased 28%.

Minority purchases continued to rise, from $31 million in 1984 to $35 million, from a list of suppliers that numbered 750, or 25% more than in the previous year. The U.S. Department of Commerce presented its "Distinguished Corporate Award" in recognition of the company's minority purchasing program. Deposits of tax payments in six minority-owned banks were up slightly, and totaled $47 million.

The company strengthened its commitment to improving the representation of qualified minorities and females at all levels of its workforce. This goal is a corporate policy that is in keeping with but independent of requirements under government regulations. Since the end of the redeployment phase of the company's development program in 1982, the overall percentage representation in all job categories for minorities and females has continued its upward trend. Even with a 6.3% decline from a year earlier in the total number of employees in the top four categories, both female and minority representation in those categories showed an overall increase. Each company location has established affirmative action goals for the hiring and promoting of qualified minorities and females.

Changes in Directors and Officers

R. J. Ventres was elected president, chief operating officer, and a director of the company, effective July 1. As president, he succeeded Eugene J. Sullivan, who continues as chairman and chief executive officer. The position of chief operating officer, also formerly held by Mr. Sullivan, had been vacant since September, 1979. Mr. Ventres joined Borden in 1957 as a project engineer for the PVC operations at Leominster, Massachusetts. He had advanced to group vice president of the Chemical Division, responsible for PVC operations and petrochemicals, when he left Borden in 1974 to become executive vice president of a specialty chemicals company in Philadelphia. He returned to the Chemical Division in 1979 as group vice president responsible for adhesives, energy resources, and Canadian operations. He was named president of the division and elected a corporate executive vice president in July, 1983, at which time he also became a member of the Office of the Chairman.

A. S. D'Amato was elected a corporate executive vice president and named president of the Chemical Division (later expanded to the Chemical Division Domestic and International), effective July 1, succeeding Mr. Ventres. Mr. D'Amato was also appointed a member of the Office of the Chairman. He joined the Chemical Division in 1959 as engineering manager of the Resinite packaging films department, and was a group vice president of the division, responsible for Plastic Products, at the time of his election.

Jon G. Hettinger, H. Wayne Mosley, and George J. Waydo were elected corporate executive vice presidents and named members of the Office of the Chairman, effective October 1. Mr. Hettinger was also named president of the Grocery and Specialty Products Division; Mr. Mosley, president of the Dairy Division, and Mr. Waydo, president of the Snacks and International Consumer Products Division.

Mr. Hettinger joined the company from the General Foods Corp. in 1972, as a marketing manager in what was then the Borden Foods Division. He was a corporate vice president, responsible for grocery and specialty products operations, at the time of his election as executive vice president.

Mr. Mosley came to Borden in 1956 as a distribution sales manager for the dairy plant in Amarillo, Texas. He was a group vice president of the Consumer Products Division in charge of dairy operations at the time of his election as executive vice president.

Mr. Waydo joined Borden in 1975 as vice president for marketing and sales at Wise/Old London snacks operations. He was a corporate vice president, responsible for snacks and dairy operations, at the time of his election as executive vice president.

Lawrence O. Doza was elected a corporate senior vice president and chief financial officer, effective October 1. He had been promoted to vice president-finance and chief financial officer, from vice president and general controller, in July. He joined Borden in 1972 as assistant general controller.

Allan L. Miller was elected a corporate senior vice president and chief administrative officer, effective October 1. He had been vice president-employee relations since 1977. He joined Borden as director of industrial relations in 1968.

Eugene C. McCarthy was elected vice president and general controller, effective October 1. He had been named general controller in July, succeeding Mr. Doza, after having served as assistant general controller since joining Borden in 1975.

Frank H. Voigt was elected vice president-employee relations, effective October 1, succeeding Mr. Miller. Mr. Voigt began with the company in 1968 as salary administrator, and at the time of his election had been serving as director of compensation and staffing since 1970.

Bernard Nemtzow resigned as vice chairman, effective February 1, 1986, in preparation for early retirement. He joined Borden in January, 1969, as vice president and general counsel, after nine years as counsel and assistant secretary of Warner-Lambert Pharmaceutical Co. and nine years as an associate attorney with the New York City law firm of Mudge, Stern, Baldwin & Todd. He was elected to the additional position of corporate secretary, and to the board of directors, in 1971, and was promoted to corporate senior vice president, responsible for law, tax, and accounting, in 1974, at which time he relinquished the post of secretary. He was elected executive vice president and chief administrative officer in 1979, and vice chairman in September, 1985.

Office of the Chairman

EUGENE J. SULLIVAN
Chairman and
Chief Executive Officer

R. J. VENTRES
President and
Chief Operating Officer

A. S. D'AMATO
Executive Vice President
President, Chemical Division
Domestic and International

JON G. HETTINGER
Executive Vice President
President, Grocery and Specialty
Products Division

H. WAYNE MOSLEY
Executive Vice President
President, Dairy Division

GEORGE J. WAYDO
Executive Vice President
President, Snacks and International
Consumer Products Division

CORPORATE SENIOR VICE PRESIDENTS

LAWRENCE O. DOZA
Chief Financial Officer

ALLAN L. MILLER
Chief Administrative Officer

DIVISION EXECUTIVES

Chemical Division Domestic and International

JOSEPH M. SAGGESE
Senior Group Vice President-International

JOHN S. BELLECCI
Group Vice President-Basic Chemicals

H. A. PEED
Group Vice President-Resins/Adhesives-Graphics/Canadian Operations

TODD C. WALKER
Group Vice President-Vinyl Resins/Petrochemical Marketing

Dairy Division

ROBERT E. DAWSON
Group Vice President-South West

RICHARD W. FOWLKES
Group Vice President-South East

ROBERT M. MALONEY
Group Vice President-Northern

Grocery and Specialty Products Division

LEE N. ARST
Group Vice President-Confection and Main Meals

JOHN F. DIX
Group Vice President-Desserts and Beverages

THOMAS O. DOGGETT
Group Vice President-Home & Professional Products

Snacks and International Consumer Products Division

DAN O'RIORDAN
Senior Group Vice President-International

PETER M. DUGGAN
Group Vice President-Snacks

SEYMOUR L. VLADIMER
Group Vice President-Bakery/Coco Lopez Sales

CORPORATE VICE PRESIDENTS

ALFRED S. CUMMIN
Science and Technology

FRANK L. FLORIAN
Planning

KAREN L. JOHNSON
Consumer Affairs

DAVID A. KELLY
Treasurer

WALTER W. KOCHER
General Counsel

EUGENE C. McCARTHY
General Controller

FRANK H. VOIGT
Employee Relations

STAFF DEPARTMENTS

ROBERT G. TRITSCH
Secretary

H. CORT DOUGHTY, JR.
Assistant Secretary

RICHARD H. BYRD
Assistant Treasurer

FRED J. CHRVALA
Assistant Treasurer

TERRENCE W. GASPER
Assistant Treasurer

GEORGE W. SANBORN
Assistant Treasurer

L. CLARKE BUDLONG
Assistant General Controller

JAMES M. HESS
Assistant General Controller

RICHARD WEBER
Assistant General Controller

PAUL J. JOSENHANS
Associate General Counsel

LAWRENCE L. DIEKER
Assistant General Counsel

RONALD P. MORAN
Assistant General Counsel

JUDY BARKER
President, The Borden Foundation

JOSEPH A. McCAHERY
General Auditor

JAMES T. McCRORY
Director, Public Affairs

Directors


Theodore Cooper, M.D.


Virginia Dwyer

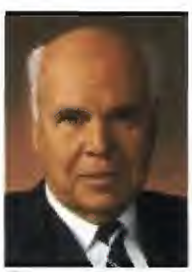

James D. Finley


Ward S. Hagan


John W. Lynn


Robert T. Quittmeyer


Patricia Carry Stewart


Eugene J. Sullivan


R.J. Ventres


Pieter C. Vink


Franklin H. Williams

THEODORE COOPER, M.D.
Vice Chairman of the Board
The Upjohn Company
(Pharmaceuticals)

VIRGINIA DWYER
Senior Vice President – Finance
American Telephone and Telegraph Company

JAMES D. FINLEY
Retired Chairman
J.P. Stevens & Co., Inc.
(Textiles)

WARD S. HAGAN
Former Chairman and Chief Executive Officer
Warner-Lambert Company
(Health-care and consumer products)

JOHN W. LYNN
Chairman and Chief Executive Officer
F.W. Woolworth Co.
(Retail merchandising)

ROBERT T. QUITTMEYER
Former Chairman and Chief Executive Officer
Amstar Corporation
(Sweeteners – industrial and technical products)

PATRICIA CARRY STEWART
Vice President
The Edna McConnell Clark Foundation
(Charitable foundation)

EUGENE J. SULLIVAN
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R.J. VENTRES
President and Chief Operating Officer

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Retired Chairman
North American Philips Corporation
(Electrical/electronic manufacturing)

FRANKLIN H. WILLIAMS
President
Phelps-Stokes Fund
(Educational foundation)

1985 FINANCIAL REVIEW

Sales and Earnings

Sales for 1985 increased 3.2% to $4.716 billion from $4.568 billion in 1984. Net income for 1985 reached an all time high of $193.8 million, an increase of 6.4% over $182.1 million in 1984. Earnings per share were $3.75, an increase of 10.6% from $3.39. During 1985 the Company realized net after-tax gains of $8.9 million or $0.17 per share primarily from early extinguishment of debt and the sale of property reduced by an employee early retirement program and other costs. During 1984 the Company realized net after-tax gains of $9.0 million or $0.17 per share from the sale of property. In addition, 1985 average shares outstanding declined approximately 2.0 million from the 1984 amount, which in part contributed to the improvement in earnings per share.

Dividends

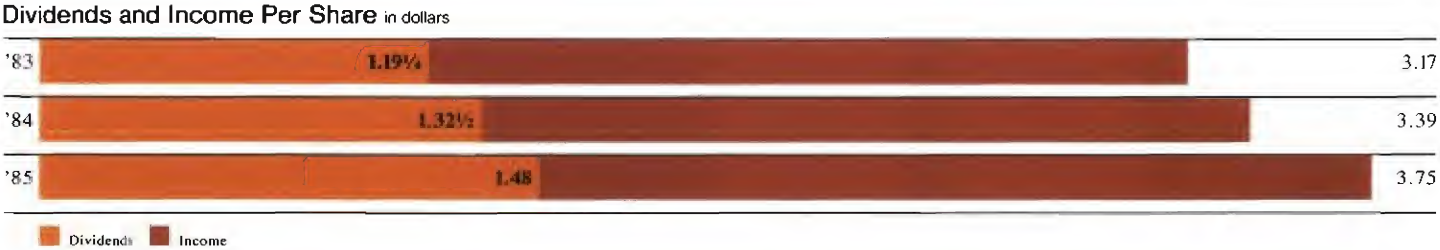
Dividends for 1985 were $1.48 per share, an increase of 11.7% over 1984. The increase in 1985 represents the twelfth consecutive yearly increase. Quarterly dividends have been paid without interruption for 87 years. Future dividends and the amount thereof will depend upon earnings, cash requirements and other relevant factors.

Return on Average Shareholders' Equity

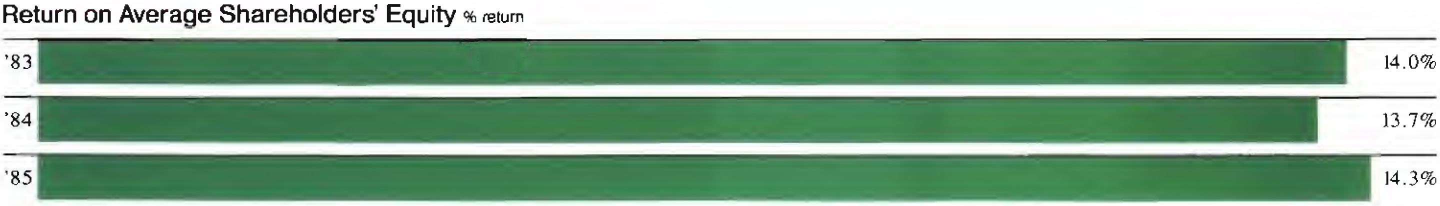
Return on average shareholders' equity was 14.3% in 1985 and 13.7% in 1984.

Sales in billions of dollars

Dividends and Income Per Share in dollars



Return on Average Shareholders' Equity % return



Three Year Comparison of Division Sales and Operating Income

(Dollars in thousands)

	1985		1984*		1983*	
Division Sales						
Chemical Domestic and International	**$1,353,455**	**29%**	$1,271,481	28%	$1,132,705	27%
Dairy	**1,248,240**	**26**	1,191,956	26	1,156,043	27
Grocery and Specialty Products	**1,133,715**	**24**	1,134,775	25	1,059,369	25
Snacks and International Consumer Products	**980,762**	**21**	969,806	21	916,654	21
Total	**$4,716,172**	**100%**	$4,568,018	100%	$4,264,771	100%
Division Operating Income						
Chemical Domestic and International	**$ 98,603**	**25%**	$ 120,186	31%	$ 98,487	27%
Dairy	**73,839**	**18**	59,906	15	50,408	14
Grocery and Specialty Products	**137,612**	**35**	122,748	31	123,177	34
Snacks and International Consumer Products	**87,456**	**22**	91,789	23	88,129	25
Total	**397,510**	**100%**	394,629	100%	360,201	100%
Other income and expenses not allocable to divisions and income taxes	**(203,706)**		(212,547)		(175,620)	
NET INCOME	**$ 193,804**		$ 182,082		$ 184,581	

*Divisional results have been restated for retroactive application of the accounting change explained in Note 2 to Consolidated Financial Statements and to reflect a 1985 organizational change.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Borden is primarily engaged in purchasing, manufacturing, processing and distributing a broad range of consumer and chemical products, both domestically and in foreign countries. Borden operates in two major industry segments: foods and chemical. Internally, Borden is organized into four operating divisions: Chemical Domestic and International; Dairy; Grocery and Specialty Products; and, Snacks and International Consumer Products. The foods segment encompasses primarily the Dairy Division; the Grocery and Specialty Products Division; and, the Snacks and International Consumer Products Division. The chemical segment encompasses primarily the Chemical Division Domestic and International. For administrative purposes certain chemical segment operations are included in the Grocery and Specialty Products and the Snacks and International Consumer Products Divisions; and, certain foods segment operations are included in the Chemical Division Domestic and International. A breakdown of the Company's sales, operating profit and other information between the foods and chemical industry segments is presented on pages 33 and 34. A three-year summary of sales and operating income by the four operating divisions is presented above. An analysis of the results achieved, financial position and changes in financial position in both industry segments, in terms of the Company as a whole and its divisions for the three most recent years follows.

Liquidity and Capital Resources

Borden meets the majority of its cash requirements through operations. The amounts provided from operations and retained in the business in 1985, 1984, and 1983 were $354.4 million, $245.4 million and $340.9 million, respectively. Short-term borrowings are utilized to meet temporary cash requirements. See Note 4 of the Notes to Consolidated Financial Statements for further information regarding short-term borrowings.

Borden borrows domestically at commercial paper rates and has credit agreements available with domestic and foreign lending institutions to support commercial paper borrowing of approximately $480.0 million, or $200.0 million in excess of amounts outstanding, at December 31, 1985. The credit agreements bear interest,

if used, at approximately the prime rate, or less, in effect at the date of use. Additional unused lines of credit totalling $120.0 million at December 31, are available for use by foreign subsidiaries.

During 1985 the Company entered into an interest rate swap agreement replacing variable short-term interest rates with a long-term fixed rate of 10.65% on $200.0 million with a maturity of ten years. Also during 1985, $200.0 million of outstanding commercial paper has been classified as long-term since the Company has both the intent and ability, through its credit facilities, to maintain such amount of debt for more than one year.

In 1985, 1984, and 1983 long-term debt financing provided $310.1 million, $112.5 million and $26.8 million, respectively. Long-term debt financing provided in 1985 included the $200.0 million of outstanding commercial paper classified as long-term debt discussed above and the proceeds from a $100.0 million offering of 10-year, 10¼% notes which were used primarily to repay short-term debt. Long-term debt financing provided in 1984 included proceeds from a Eurodollar Extendible Note offering of $100.0 million, which were used to finance the acquisition of Ronco Enterprises, Inc., a pasta manufacturer, and to repay short-term debt. Reductions of long-term debt were $207.5 million in 1985, primarily due to the third quarter early extinguishment of $180.0 million of debentures, $67.1 million in 1984, and $85.7 million (including conversions) in 1983. At December 31, 1985 and 1984 long-term debt was 37% and 32%, respectively, of total shareholders' equity. Debt payable within one year decreased $94.9 million in 1985, and increased $76.2 million in 1984 and $42.4 million in 1983.

The Company's strong financial position and history of growth in earnings provide a solid base for obtaining substantial financial resources. The Company has outstanding a shelf registration statement for $200.0 million of debt securities under which the $100.0 million of 10-year, 10¼% notes were issued in 1985. Consequently, the Company can still issue $100.0 million of debt securities under the shelf registration which provides the Company with the flexibility to enter the market quickly and take advantage of favorable market conditions. If required, management believes that additional cash could be raised through long-term borrowings, including any under the shelf registration, of approximately $400.0 million.

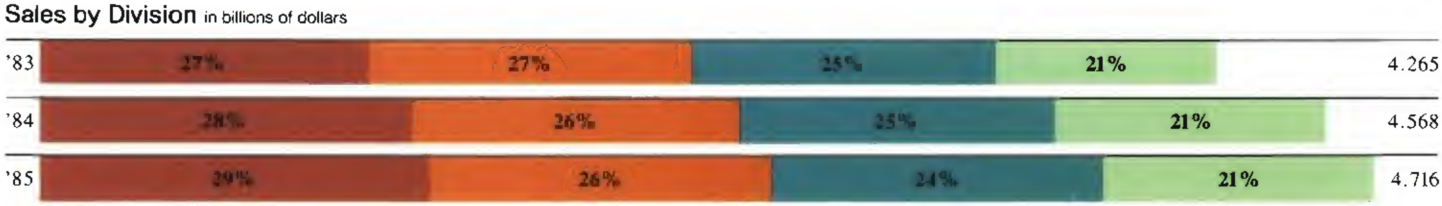
Capital expenditures for new facilities and improvements to existing facilities were $193.6, $163.8 and $184.9 million in 1985, 1984 and 1983, respectively. Depreciation, depletion and amortization during each of the three years was $122.7, $111.9 and $94.6 million.

Borden is actively engaged in complying with environmental protection laws, as well as the various federal and state statutes and regulations relating to producing, processing, distributing and labeling its many products. In this connection Borden incurred approximately $5.1 million of capital expenditures in 1985 as compared to $3.5 million in 1984 and $8.5 million in 1983. It is estimated that Borden will spend $8.8 million for environmental control facilities during 1986.

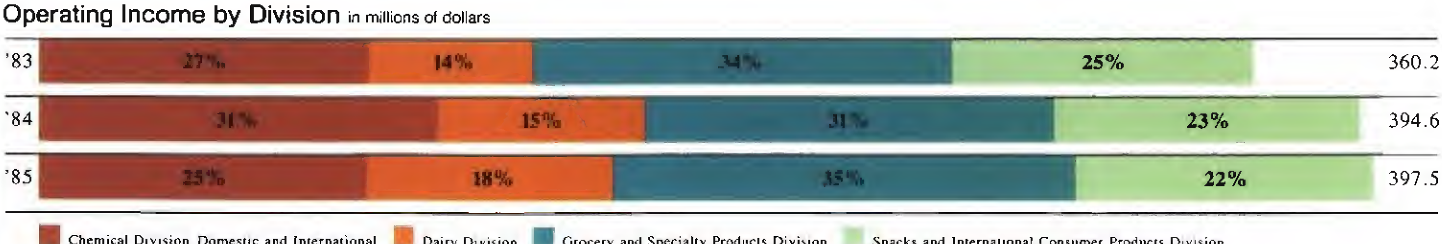
The Company's 1985 acquisition of treasury shares approximated 1.1 million shares at a cost of $42.3 million. In 1984 and 1983 it acquired approximately 4.2 million shares at a cost of $118.7 million and 2.5 million shares at a cost of $70.2 million, respectively. Treasury shares on hand and any additional shares which may be purchased in 1986 will be held for general corporate purposes including possible future acquisitions.

During 1983 the Company called its 6¾% and 5% Eurodollar Convertible Debentures for redemption. Approximately 1.1 million shares of common stock were issued for the conversion of $17.4 million of convertible debentures prior to the redemption dates.

Sales by Division in billions of dollars



Operating Income by Division in millions of dollars



Results of Operations

Borden's operating divisions must deal with intense competition on the local and national level, both in the United States and overseas. Advertising and promotion expenditures were increased to $267.6 million in 1985 from $252.0 million in 1984 and $219.1 million in 1983 in order to preserve and expand Borden's market share.

Raw materials and supplies used in production are purchased from a broad range of sources. Natural gas, the feedstock for Borden's petrochemical complex, is the subject of supply contracts. Borden has contracts for all current gas requirements, beyond captive sources, through 1990.

Research and development expenditures were $23.8 million in 1985, $22.5 million in 1984 and $22.0 million in 1983. The development and marketing of new food and chemical products is carried out at the divisional level and is integrated with quality controls for existing product lines.

Net sales in 1985 increased 3.2% to $4.716 billion from 1984 sales of $4.568 billion, which was up 7.1% from 1983 sales of $4.265 billion. Earnings per share rose 10.6% to $3.75 from $3.39 in 1984, which was 5.9% above the 1983 mark of $3.20. Net income increased 6.4% to $193.8 million from $182.1 million in 1984, which was 1.4% lower than the $184.6 million in 1983. In 1985 there were net after-tax gains of $8.9 million or $0.17 per share primarily from early extinguishment of debt and the sale of property reduced by an employee early retirement program and other costs. In 1984 there were net after-tax gains of $9.0 million or $0.17 per share from the sale of property. In 1983 there were net after-tax gains of $28.7 million or $0.50 per share primarily from a disputed contract settlement and the sale of property.

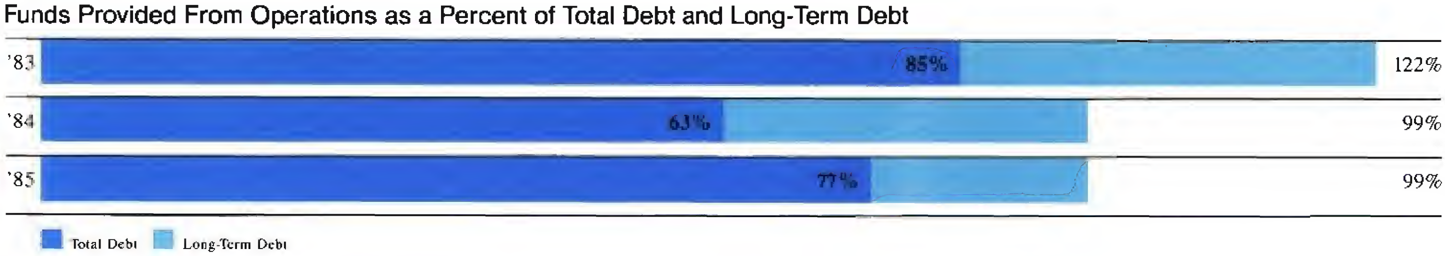
Divisional operating income for 1985 increased to $397.5 million from $394.6 million in 1984, which was up from the 1983 amount of $360.2 million. The effective income tax rate was 40.3% in 1985, 42.9% in 1984 and 43.1% in 1983. Income taxes in 1985 were $130.7 million versus $136.7 million in 1984 and $139.6 million in 1983.

The Chemical Division Domestic and International's 1985 sales increased 6.4% to $1.353 billion from $1.271 billion in 1984 due primarily to the acquisition of the Crown and Sunworthy wallcovering operations in early 1985 and a substantial increase in volume of methanol sales. Operating income decreased 18.0% to $98.6 million from the $120.2 million level the year earlier. Sharply lower margins on such basic chemicals as methanol, ammonia and urea and disappointing results experienced by the Brazilian chemical operations more than offset the combined improvements of the Division's other operations, which included strong recoveries in domestic PVC resins and European chemical operations. The Division benefited from a major efficiency program at the Basic Chemicals complex and the Company's petro-condo strategy. The Division's 1984 operating income increased 22.0% from 1983 on a sales increase of 12.3%, primarily due to the recovery of the domestic housing and auto markets.

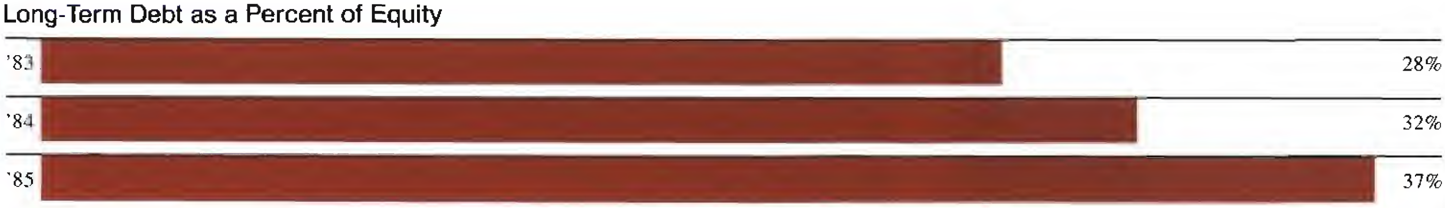
The Dairy Division's 1985 sales increased 4.7% to $1.248 billion from $1.192 billion in 1984. As a result of the increased sales and cost reductions by all three of the Division's regional operations, total operating income rose 23.3% to $73.8 million from $59.9 million in 1984. The Division's 1984 sales increased 3.1% and operating profit increased 18.8% from 1983 levels as a result of an industry upturn from depressed conditions in 1983.

The Grocery and Specialty Products Division's 1985 sales decreased slightly to $1.134 billion from $1.135 billion in 1984. All five operating units improved their profit

Funds Provided From Operations as a Percent of Total Debt and Long-Term Debt



Long-Term Debt as a Percent of Equity



performances from 1984, resulting in a 12.1% increase in the Division's operating income to $137.6 million from $122.7 million in 1984. Strong gains were posted by recipe brands, Cracker Jack, and the pasta group. The Division's 1984 sales increased 7.1% while operating income decreased .3% from 1983 reflecting a significant investment in advertising and promotion.

The Snacks and International Consumer Products Division's 1985 sales increased 1.1% to $980.8 million from $969.8 million in 1984. Operating income decreased 4.7% to $87.5 million from $91.8 million in 1984 due primarily to declines experienced by international operations. The Division's 1984 operating income increased 4.2% from 1983 on a sales increase of 5.8%.

Inflation and Disinflation

Inflation and disinflation had an impact on the Company's reported earnings, shareholders' equity and other financial information which is not measured by traditional accounting methods. Pages 47 through 48 present certain financial information adjusted in accordance with Statement of Financial Accounting Standards No. 33, an experimental approach for estimating and evaluating the impact of inflation.

BUSINESS SEGMENTS

Borden, Inc., as discussed on the previous pages, operates in two major industry segments: foods and chemical. Corporate departments provide certain centralized services for the corporation and all operating units. The Company's general offices are located in Columbus, Ohio and its executive offices in New York City. Production facilities are located throughout the United States and in many foreign countries. The Company's operating properties are generally well maintained and effectively utilized.

The foods segment includes the following primary product lines: processed cheese, non-dairy creamer, reconstituted lemon and lime juice, dehydrated potatoes, instant coffee, sweetened condensed milk, snack foods and cakes, confections, powdered soft drinks, jams and jellies, pasta, seafood, homogenized milk, whole milk powder, buttermilk, chocolate drink, ice cream and milks, sherbets, yogurt, cottage cheese, frozen novelties, dips, eggnog, sour cream, low-fat dairy products, milk-based products for the industrial trade, and fruit drinks. As of December 31, 1985 the Company operated 95 food manufacturing and processing facilities domestically, the most significant being the Illinois powdered soft drink operations, the snack group operations in Pennsylvania, Florida, Missouri, South Carolina, Texas, Indiana, Wisconsin, Utah and Ohio, the pasta operations in Minnesota, Louisiana, Arizona, Tennessee and Pennsylvania, the confectionery operations located principally in Illinois, the bakery operations in New Jersey, the snack and specialty operations in Puerto Rico, and the dairy facilities, most of which are approximately the same size, located principally in the midwest, south, and southwest; and the Company operated 28 foreign food and dairy manufacturing and processing facilities located principally in Latin America and Western Europe.

The chemical segment is a major producer of basic petrochemicals and thermoplastics including formaldehyde, methanol, ammonia, urea, vinyl chloride monomer and PVC resins, most of which are utilized in the segment's downstream production facilities. Those facilities produce synthetic adhesives for the forest products and packaging industries, transparent wrapping film, printing inks, vinyl film, wall coverings, glue and spray paint, and plastic school and office accessories. As of December 31, 1985 the Company operated 42 chemical manufacturing and processing facilities domestically, the most significant being the petrochemical complex in Louisiana and the thermoplastics and Resinite operations in Louisiana, Georgia, Massachusetts and Illinois; and the Company operated 52 foreign chemical manufacturing and processing facilities located principally in Brazil, Western Europe and Canada.

Domestic products for the foods segment are marketed primarily through food brokers and distributors, and directly to wholesalers, retail stores, food processors, institutions and governmental agencies. The chemical segment products are sold throughout the United States to industrial users and, in the case of consumer products, by an in-house and independent sales force to distributors, wholesalers, jobbers and dealers. To the extent practicable, international distribution techniques parallel those used in the United States. However, raw materials, production considerations, pricing competition, governmental policy toward industry and foreign investment and other factors vary substantially from country to country for both industry segments.

Segment operating profit as shown on page 34 is total revenue less operating expenses. In computing segment operating profit none of the following items have been deducted from revenue: general corporate expenses, interest expense and federal, state and local income taxes. Minority interests in earnings of certain subsidiaries and the Company's equity in earnings of unconsolidated 20% to 50% owned companies were immaterial and have been included in segment operating profit.

Identifiable assets by segment are those assets that are used in the segments' operations. Corporate assets are principally cash and cash items.

Business Segments

(In thousands)

	Year ended December 31	1985	1984*	1983*
Net Sales	Foods	**$3,184,655**	$3,120,487	$2,969,431
	Chemical	**1,531,517**	1,447,531	1,295,340
	Total	**$4,716,172**	$4,568,018	$4,264,771
Operating Profit	Foods	**$ 268,551**	$ 243,208	$ 231,441
	Chemical	**128,959**	151,421	128,760
	Total segments	**397,510**	394,629	360,201
	General Corporate income	**1,351**	3,408	31,531
	Interest expense	**(74,357)**	(79,255)	(67,551)
	Earnings before income taxes	**$ 324,504**	$ 318,782	$ 324,181
Identifiable Assets	Foods	**$1,485,675**	$1,414,600	$1,256,364
	Chemical	**1,336,474**	1,223,220	1,226,550
	Total segments	**2,822,149**	2,637,820	2,482,914
	Corporate assets	**110,097**	129,315	139,214
	Total	**$2,932,246**	$2,767,135	$2,622,128
Depreciation, Depletion, and Amortization	Foods	**$ 52,576**	$ 50,326	$ 44,109
	Chemical	**67,389**	58,952	47,234
Capital Expenditures	Foods	**$ 90,485**	$ 78,406	$ 94,592
	Chemical	**101,925**	83,555	89,701
Foreign Operations	Net sales	**$ 832,311**	$ 752,288	$ 769,644
	Operating profit	**75,884**	83,039	83,813
	Identifiable assets	**636,656**	505,187	497,948

*Restated for retroactive application of the accounting change explained in Note 2 to Consolidated Financial Statements.

Five-Year Selected Financial Data
BORDEN, INC.

(All dollar and share figures in thousands—except market price, number of common shareholders, average number of employees, and per share statistics)

Summary of Earnings	**1985**	**1984***	**1983***	**1982***	**1981***
Net sales	**$4,716,172**	$4,568,018	$4,264,771	$4,111,277	$4,415,174
Income taxes	**130,700**	136,700	139,600	70,400	69,100
Net income as previously reported	**193,804**	191,407	189,069	165,855	159,939
Effect of change in accounting method	–	(9,325)	(4,488)	(18,755)	(10,387)
Net income as restated	**193,804**	182,082	184,581	147,100	149,522
Percent of net income to sales	**4.1%**	4.0%	4.3%	3.6%	3.4%
Net income per common share:					
Primary as previously reported	**$ 3.75**	$ 3.57	$ 3.28	$ 2.91	$ 2.72
Effect of change in accounting method	–	(.18)	(.08)	(.33)	(.17)
Primary as restated	**3.75**	3.39	3.20	2.58	2.55
Fully diluted as previously reported	**3.75**	3.57	3.25	2.81	2.60
Effect of change in accounting method	–	(.18)	(.08)	(.31)	(.17)
Fully diluted as restated	**3.75**	3.39	3.17	2.50	2.43
Dividends:					
Common share	**$ 1.48**	$ 1.32½	$ 1.19¼	$ 1.08⅞	$ 1.00⅝
Preferred series B share	**1.32**	1.32	1.32	1.32	1.32
Average number of common shares outstanding during the year for calculation of: (a)					
Primary earnings per share	**51,688**	53,688	57,637	57,060	58,734
Fully diluted earnings per share	**51,688**	53,688	58,242	59,433	62,132
Financial Statistics					
Capital expenditures	**$ 193,602**	$ 163,751	$ 184,914	$ 240,104	$ 247,500
Inventories	**423,046**	418,740	397,751	399,272	400,917
Property, plant and equipment, net	**1,296,460**	1,214,260	1,187,765	1,125,190	1,041,215
Depreciation, depletion and amortization	**122,651**	111,875	94,602	96,008	99,060
Total assets	**2,932,246**	2,767,135	2,622,128	2,500,260	2,456,691
Current assets	**1,318,734**	1,221,729	1,138,461	1,082,315	1,107,653
Current liabilities	**705,182**	781,202	684,593	604,360	588,559
Working capital	**613,552**	440,527	453,868	477,955	519,094
Current ratio	**1.9:1**	1.6:1	1.7:1	1.8:1	1.9:1
Long-term debt	**$ 526,563**	$ 423,413	$ 377,683	$ 434,876	$ 435,549
Long-term debt-to-equity percent	**37%**	32%	28%	34%	34%
Shareholders' equity	**$1,407,795**	$1,309,604	$1,342,024	$1,296,806	$1,292,983
Liquidating value of preferred stock	**(494)**	(576)	(649)	(710)	(1,065)
Common shareholders' equity	**1,407,301**	1,309,028	1,341,375	1,296,096	1,291,918
Equity per common share at year-end	**27.41**	25.17	23.95	22.71	22.05
Return on average shareholders' equity	**14.3%**	13.7%	14.0%	11.4%	11.9%
Ratio of earnings to fixed charges	**4.5:1**	4.4:1	4.5:1	3.4:1	3.5:1
Shareholders' Data					
Outstanding shares at year-end:					
Common	**51,344**	52,015	56,016	57,062	58,597
Preferred series B	**17**	20	22	25	37
Market price of common stock:					
At year-end	**$ 51⅝**	$ 32⅜	$ 28¼	$ 23⅞	$ 14
Range during year	**53½–31⅝**	32½–25	30½–22⅝	26¼–13½	15–12½
Number of common shareholders	**43,374**	43,409	45,689	50,202	55,884
Employees' Data					
Payroll	**$ 637,300**	$ 608,400	$ 578,000	$ 571,600	$ 573,000
Average number of employees	**32,700**	32,200	32,600	33,200	35,200

*Restated for retroactive application of the accounting change and the two-for-one stock split explained in Note 2 to Consolidated Financial Statements.
(a) Years prior to 1985 include common share equivalents.

Consolidated Statements of Income
BORDEN, INC.

(In thousands except per share data)		Year Ended December 31 1985	1984*	1983*
Revenue	Net sales	**$4,716,172**	$4,568,018	$4,264,771
Costs and Expenses	Cost of goods sold	**3,615,560**	3,507,549	3,286,436
	Marketing, general and administrative expenses	**727,314**	688,382	640,749
	Interest expense	**74,357**	79,255	67,551
	Other income and expense, interest income, and equity in income of affiliates, net	**(25,563)**	(25,950)	(54,146)
	Income taxes	**130,700**	136,700	139,600
		4,522,368	4,385,936	4,080,190
Earnings	Net income	**$ 193,804**	$ 182,082	$ 184,581
Share Data	Net income per common share	**$ 3.75**	$ 3.39	$ 3.20
	Cash dividends per common share	**1.48**	1.32½	1.19¼
	Average number of common shares outstanding during the year	**51,688**	53,688	57,637

*Restated for retroactive application of the accounting change and the two-for-one stock split explained in Note 2.

See Notes to Consolidated Financial Statements

Consolidated Statements of Changes in Financial Position
BORDEN, INC.

(In thousands)		1985	1984*	1983*
		Year Ended December 31		
Funds Provided From Operations And Retained In The Business	Division operating income	**$ 397,510**	$ 394,629	$ 360,201
	Depreciation, depletion, and amortization	**122,651**	111,875	94,602
	Changes in trade receivables, payables, and inventories	**16,117**	(77,059)	(24,238)
	Other, net	**(15,997)**	(8,436)	31,435
		520,281	421,009	462,000
	Income taxes paid	**(89,379)**	(104,544)	(52,408)
	Dividends paid	**(76,501)**	(71,066)	(68,680)
		354,401	245,399	340,912
Funds Used In Investment Activities	Capital expenditures	**(193,602)**	(163,751)	(184,914)
	Purchase of businesses	**(66,044)**	(44,166)	(22,175)
		(259,646)	(207,917)	(207,089)
Funds Used In Financing Activities	Acquisition of treasury stock	**(42,324)**	(118,665)	(70,217)
	Stock issued for conversions, stock options and acquisitions	**13,888**	3,307	23,449
	(Decrease) increase in debt payable within one year	**(94,898)**	76,194	42,406
	Long-term debt financing	**310,075**	112,455	26,792
	Reduction in long-term debt	**(207,518)**	(67,098)	(85,678)
	Interest paid, net	**(55,244)**	(64,514)	(58,197)
		(76,021)	(58,321)	(121,445)
	Increase (decrease) in cash (including time deposits and short-term investments)	**$ 18,734**	$ (20,839)	$ 12,378

*Restated for retroactive application of the accounting change explained in Note 2.

See Notes to Consolidated Financial Statements

Consolidated Balance Sheets

BORDEN, INC.
(In thousands except share and per share data)

ASSETS		December 31 1985	1984*
Current Assets	Cash (including time deposits and short-term investments of $64,911 and $77,008, respectively)	**$ 141,069**	$ 122,335
	Accounts receivable (less allowance for doubtful accounts of $10,763 and $10,421, respectively)	**666,233**	605,705
	Inventories:		
	Finished and in process goods	**263,790**	250,973
	Raw materials and supplies	**159,256**	167,767
	Other current assets	**88,386**	74,949
		1,318,734	1,221,729
Investments and Other Assets	Investments in and advances to affiliated companies	**21,453**	15,422
	Miscellaneous investments and receivables	**19,346**	57,882
	Other assets	**55,296**	46,768
		96,095	120,072
Property and Equipment	Land	**57,940**	53,005
	Buildings	**399,391**	364,725
	Machinery and equipment	**1,819,891**	1,677,577
		2,277,222	2,095,307
	Less accumulated depreciation	**(980,762)**	(881,047)
		1,296,460	1,214,260
Intangibles	Intangibles resulting from business acquisitions	**220,957**	211,074
		$2,932,246	$2,767,135

*Restated for retroactive application of the accounting change and the two-for-one stock split explained in Note 2.

See Notes to Consolidated Financial Statements

LIABILITIES AND SHAREHOLDERS' EQUITY		December 31 1985	December 31 1984*
Current Liabilities	Debt payable within one year	**$ 150,974**	$ 242,714
	Accounts and drafts payable	**350,168**	309,723
	Income taxes	**30,777**	36,802
	Other current liabilities	**173,263**	191,963
		705,182	781,202
Other	Long-term debt	**526,563**	423,413
	Deferred income taxes	**281,951**	244,179
	Other long-term liabilities	**6,764**	5,217
	Minority interests in consolidated subsidiaries	**3,991**	3,520
		819,269	676,329
Shareholders' Equity	Capital Stock:		
	Preferred stock–no par value		
	Authorized 10,000,000 shares		
	Issued series B convertible – 17,095 shares and 19,929 shares, respectively (involuntary liquidating value of $494 or $28.88 per share at December 31, 1985)	**71**	82
	Common stock – $1.875 par value		
	Authorized 120,000,000 shares		
	Issued 67,328,074 shares	**126,240**	126,240
	Paid in capital	**263,537**	258,215
	Accumulated translation adjustment	**(94,018)**	(103,342)
	Retained earnings	**1,461,125**	1,343,822
		1,756,955	1,625,017
	Less common stock in treasury (at cost) – 15,984,084 shares and 15,312,734 shares, respectively	**(349,160)**	(315,413)
		1,407,795	1,309,604
		$2,932,246	$2,767,135

Consolidated Statement of Shareholders' Equity
BORDEN, INC.

(In thousands) **For the Three Years Ended December 31, 1985**

	CAPITAL STOCK ISSUED					
	Preferred Series B	**Common**	**Paid-In Capital**	**Accumulated Translation Adjustment**	**Retained Earnings***	**Treasury Stock**
Balance, December 31, 1982 as previously reported	$ 101	$123,403	$236,323	$ (51,349)	$1,161,432	$(128,577)
Cumulative effect of retroactive change in accounting method for oil and gas operations					(44,527)	
Balance, December 31, 1982 as restated	101	123,403	236,323	(51,349)	1,116,905	(128,577)
Net income					184,581	
Cash dividends:						
Common stock					(68,649)	
Preferred series B					(31)	
Translation adjustment for the period				(23,915)		
Stock reacquired for acquisitions and treasury						(70,217)
Convertible debentures and preferred series B stock converted	(8)	2,157	14,957			
Stock issued for exercised options and Management Incentive Plan		590	5,753			
Balance, December 31, 1983	93	126,150	257,033	(75,264)	1,232,806	(198,794)
Net income					182,082	
Cash dividends:						
Common stock					(71,038)	
Preferred series B					(28)	
Translation adjustment for the period				(28,078)		
Stock reacquired for acquisitions and treasury						(118,665)
Preferred series B stock converted	(11)	2	(84)			93
Stock issued for exercised options and Management Incentive Plan		88	1,266			1,953
Balance, December 31, 1984	82	126,240	258,215	(103,342)	1,343,822	(315,413)
Net income					193,804	
Cash dividends:						
Common stock					(76,477)	
Preferred series B					(24)	
Translation adjustment for the period				9,324		
Stock reacquired for acquisitions and treasury						(42,324)
Preferred series B stock converted	(11)		(119)			130
Stock issued for exercised options			1,290			3,998
Stock issued for aquisitions			4,151			4,449
Balance, December 31, 1985	**$ 71**	**$126,240**	**$263,537**	**$ (94,018)**	**$1,461,125**	**$(349,160)**

*Restated for retroactive application of the accounting change explained in Note 2.

See Notes to Consolidated Financial Statements

Notes To Consolidated Financial Statements
(In thousands except share and per share data)

1. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company, as summarized below, are in conformity with generally accepted accounting principles.

Principles of Consolidation—The consolidated financial statements include the accounts of Borden, Inc. and its subsidiaries, after elimination of material intercompany accounts and transactions. The Company's proportionate share of the net earnings of unconsolidated 20% to 50% owned companies is included in income. The carrying value of these companies approximates Borden's interest in their underlying net assets. Investments of less than 20% ownership are carried at cost.

Inventories—Inventories are stated at the lower of cost or market. Cost is determined using the average cost and first-in, first-out methods.

Property and Equipment—Land, buildings and machinery and equipment are carried at cost.

Depreciation is recorded on the straight-line basis by charges to costs and expenses at rates based on the estimated useful lives of the properties (average rates for buildings—3%; machinery and equipment—6%).

Major renewals and betterments are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts.

Intangibles—The excess of purchase price over net tangible assets of businesses acquired is carried as intangibles in the Consolidated Balance Sheets. It is the Company's policy to carry intangibles arising prior to November, 1970 at cost until such time as there may be evidence of diminution in value or the term of existence of such value becomes limited. Intangibles arising after October, 1970 are being amortized on a straight-line basis generally over a forty-year period.

Income Taxes—The provision for income taxes includes federal, foreign, state and local income taxes currently payable and those deferred because of timing differences between income for financial statements and income for tax purposes. Investment tax credits are recorded as a reduction of current income tax expense in the years realized. A substantial portion of the undistributed earnings of subsidiaries, primarily outside the United States, have been reinvested and are not expected to be remitted to the parent company. Accordingly, no additional federal income taxes have been provided and at December 31, 1985, the cumulative amount thereof was approximately $222,000.

Pension, Retirement Savings and Certain Postretirement Benefits Plans—Substantially all of the Company's domestic and Canadian employees are covered under one of the Company's pension plans or one of the union-sponsored plans to which the Company contributes. Pension expenses for the Company's plans, determined for domestic employees in accordance with the funding requirements of the Employee Retirement Income Security Act of 1974, comprise current service costs and amortization of prior service costs, effectively, over a thirty year period. It is the Company's policy to fund pension costs accrued for qualified plans.

Substantially all domestic and Canadian salaried employees participate in the Company's retirement savings plans. The Company's cost of providing the retirement savings plans represents its matching of eligible contributions made by participating employees and is recognized as a charge to income in the year the cost is incurred.

The Company provides certain health and life insurance benefits for eligible domestic and Canadian retired employees. Retired employees may become eligible for coverage by Company plans if they meet age and service requirements as indicated in the plans' provisions. The cost of providing health and life insurance benefits to retired employees under Company plans is recognized as a charge to income in the year the cost is incurred.

Earnings Per Share—In 1985, earnings per common share is computed based on the weighted average number of common shares outstanding. In 1984 and 1983, earnings per common share were computed based on the weighted average number of common shares and common share equivalents assumed outstanding. Common share equivalents, which are not significant, totalled 169,000, 141,000 and 163,000 in 1985, 1984 and 1983, respectively.

2. Restatement of Previously Reported Financial Information

A. Change in Accounting Method

During 1985 the Company accounted for its oil and gas operations under the "successful efforts" method whereas in prior periods those operations were accounted for under the "full cost" method. As required by generally accepted accounting principles, the financial statements of prior periods have been restated to retroactively reflect the change, such change having been previously reported upon and filed with the Securities and Exchange Commission on November 6, 1985. The "successful efforts" method was adopted because the Company's management believes it more accurately reflects the current and planned future levels of the Company's exploration and production activities. The effect of the

accounting change on income and earnings per share for 1984 and 1983 is as follows:

	1984	1983
Net income as previously reported	$191,407	$189,069
Effect of change in accounting method	(9,325)	(4,488)
Net income as restated	$182,082	$184,581
Per share amounts:		
Net income as previously reported	$ 3.57	$ 3.28
Effect of change in accounting method	(.18)	(.08)
Net income as restated	$ 3.39	$ 3.20

The effect of the change on the December 31, 1984 balance sheet was to decrease property by $116,992, deferred income taxes by $58,652 and retained earnings by $58,340.

B. Stock Split

On June 3, 1985 a two-for-one split of the Company's common stock was effected through the distribution of one additional share for each share of stock already issued. The par value of the common stock was reduced from $3.75 per share to $1.875 per share concurrent with the split. As a result, there was no change in the capital accounts. Amounts per share and number of shares have been restated to give retroactive effect to the stock split.

3. Foreign Affiliates

The financial statements of foreign entities have been translated into U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52. The principal policies are that assets and liabilities are generally translated at current exchange rates and related translation adjustments are reported as a component of shareholders' equity. For entities in highly inflationary countries a combination of current and historical rates, similar to that previously required by Statement of Financial Accounting Standards No. 8, are used in translating assets and liabilities. Related exchange adjustments are included in net income.

After translation into U.S. dollars, the Company's proportionate share of net assets of foreign affiliates included in the consolidated financial statements was $300,000 at December 31, 1985 and $250,000 at December 31, 1984.

Realized and unrealized net foreign exchange losses aggregating $20,000, $15,400 and $12,800 were charged against net income in 1985, 1984, and 1983, respectively.

4. Debt, Lease Obligations and Commitments

Debt outstanding at December 31, 1985 and 1984 is as follows:

	1985		1984	
	Long-Term	Due Within One Year	Long-Term	Due Within One Year
12½% Eurodollar Extendible Notes due 1996	100,000		100,000	
10¼% Notes due 1995	100,000			
Commercial paper (at the swap rate of 10.65%)	200,000			
Industrial Revenue Bonds (at an average rate of 8.82% and 8.79%, respectively)	61,235	815	62,050	810
Sinking fund debentures:				
4⅜% due 1991	$ 636		$ 641	
5¾% due 1997	7,281		19,380	
8½% due 2004			76,000	
9⅜% due 2009			114,000	
Other borrowings (at an average rate of 9.36% and 13.71%, respectively)	57,411	5,631	51,342	5,636
Current maturities of long-term debt		6,446		6,446
Short-term debt:				
Commercial paper (at an average rate of 8.1% and 9.0%, respectively)		81,845		197,700
Other (primarily foreign bank loans at an average rate of 21.8% and 27.2%, respectively)		62,683		38,568
Total debt	$526,563	$150,974	$423,413	$242,714

During 1985 the Company sold at approximately par $100,000 of 10¼% Notes with a final maturity in 1995. Proceeds from the sale were used primarily to repay short-term debt. In addition, during 1985 the Company entered into an interest rate swap agreement replacing variable short-term interest rates with a long-term fixed rate of 10.65% on $200,000 with a maturity of ten years. At December 31, 1985 $200,000 of outstanding commercial paper has been classified as long-term since the Company has both the intent and ability, through its credit

facilities, to maintain such amount of debt for more than one year.

Also during 1985, certain sinking fund debentures were retired through a combination of direct repurchase and in-substance defeasance, which was accomplished through the deposit of U.S. government obligations in an irrevocable trust to be used to satisfy scheduled principal and interest payments. The early extinguishment of debt caused a net gain of $11,800 or $0.23 per share, and when combined with a gain from sale of property and employee early retirement program and other costs, resulted in 1985 one-time net after-tax gains of $8,900 or $0.17 per share. The amount of debt considered to be extinguished by the defeasance at December 31, 1985 is $118,700.

During 1984 the Company sold at par $100,000 of 12½% Eurodollar Extendible Notes with a final maturity in 1996. Proceeds from the sale were used to finance the acquisition of Ronco Enterprises, Inc. and to retire short-term debt. The Notes bear an annual interest rate of 12½% through October 14, 1987 at which time the Company may, at its option, either redeem the Notes in whole or in part, or reoffer an interest rate and an extended term. The Company has this option at the completion of each such term through the final maturity date. The Notes are repayable at the holder's option on October 15, 1987 and at the completion of each extended term.

Aggregate maturities of long-term debt and minimum annual rentals under agreements classified and accounted for as operating leases at December 31, 1985 are as follows:

	Long-Term Debt	Minimum Rentals on Operating Leases
1986	$ 6,446	$ 22,092
1987	5,150	18,986
1988	36,090	16,452
1989	15,294	11,290
1990	1,578	7,644
1991 and beyond*	468,451	26,723

*Figures represent combined totals for all years.

The average amount of short-term commercial paper outstanding was $221,942 during 1985 and $195,500 during 1984, and the average amount of other short-term debt, primarily foreign bank loans, was $39,437 during 1985 and $50,500 during 1984. The respective weighted average interest rates for short-term commercial paper and other short-term debt were 8.3% and 25.4% during 1985, and 10.7% and 34.6% during 1984. Maximum month-end borrowings were $280,130 in 1985 and $304,700 in 1984 for short-term commercial paper, and $62,683 in 1985 and $57,800 in 1984 for other short-term debt. Short-term commercial paper was issued and redeemed on the open market in the United States through a money market dealer.

During 1985, the Company negotiated a five-year $300,000 Revolving Note Issuance Facility with a group of banks for the issuance of short-term notes in the Eurodollar market. The Company also has credit agreements of approximately $180,000 under which it can execute term loans for up to two years; pursuant to this arrangement, the Company has agreed to maintain minimum cash balances aggregating approximately $7,000 with various commercial banks. These requirements are satisfied by balances maintained for normal business needs. All of the above credit facilities require a commitment fee, bear interest, if used, at approximately the prime rate, or less, and are available to support domestic commercial paper borrowing at commercial paper rates. Additional unused credit facilities of $120,000 at December 31, 1985 were available for use by foreign subsidiaries.

The Company has capitalized interest that related to the capital cost of acquiring certain fixed assets. The interest costs incurred and the amounts capitalized were $79,762 and $5,405 in 1985, $81,683 and $2,428 in 1984, and $78,396 and $10,845 in 1983.

5. Income Taxes

Comparative analyses of the provisions for income taxes follows:

	1985	1984*	1983*
Current			
Federal	$ 43,700	$ 62,800	$ 56,900
State and Local	11,500	14,200	7,650
Foreign	18,500	22,400	16,750
	73,700	99,400	81,300
Deferred			
Federal	45,400	30,400	43,000
State and Local	6,900	5,100	10,800
Foreign	4,700	1,800	4,500
	57,000	37,300	58,300
	$130,700	$136,700	$139,600

The deferred Federal tax provisions in 1985, 1984 and 1983 reflect accelerated write-offs of property and equipment costs, the Federal tax effects of which were $38,300, $32,000 and $40,300, respectively.

Reconciliations of the difference between the Federal statutory tax rates and consolidated effective book income tax rates are as follows:

	1985	1984*	1983*
Federal statutory tax rate	46.0%	46.0%	46.0%
State tax provision, net of Federal benefit	3.1	3.3	3.1
Investment and energy tax credits	(3.2)	(2.7)	(2.7)
Foreign tax benefits	(2.3)	(1.6)	(1.2)
Contributions of appreciated assets, capital gain benefits, and other-net	(3.3)	(2.1)	(2.1)
Effective book income tax rate	40.3%	42.9%	43.1%

The domestic and foreign components of income before income tax expense are as follows:

	1985	1984*	1983*
Domestic	$260,537	$255,387	$273,118
Foreign	63,967	63,395	51,063
	$324,504	$318,782	$324,181

*Restated for retroactive application of the accounting change explained in Note 2.

6. Operations by Industry Segment

Information about the Company's industry segments and geographic areas of operation is provided on pages 33 and 34 of this Annual Report and is an integral part of the Consolidated Financial Statements.

7. Pension, Retirement Savings and Certain Postretirement Benefits Plans

The charges to operations under the Company's domestic and Canadian pension and retirement savings plans were $14,800 in 1985, $19,700 in 1984 and $16,300 in 1983.

Company contributions charged to operations under the Company's retirement savings plans in 1985, 1984 and 1983 amounted to approximately $11,100, $9,200 and $4,700 respectively. Effective January 1, 1984 the domestic salaried plan was amended to increase the Company's matching contribution to $1.00 from 55¢ for every dollar of eligible contributions by employees. Eligible contributions were 5% of salary effective January 1984 and, effective July 1984, were increased to as much as 7% for longer service employees.

The charges to operations under the Company's domestic and Canadian pension plans in 1985, 1984 and 1983 were $3,700, $10,500 and $11,600, respectively. The reductions in 1985 and 1984 resulted primarily from the following changes. During 1984, a dedicated bond portfolio was established within the principal pension fund to provide a portion of the funds necessary to meet the actuarially calculated payments to employees retired on or before January 1, 1984. The assumed rate of return applicable to the obligation for such employees was increased as of such date. In 1984 and 1983 the assumed rate of return used in determining the actuarial present value of all other payments was 8.25%. During 1985, for the domestic plan, this assumption was changed to the yield obtainable on government obligations over the periods during which plan benefits are payable, similar to the actual dedicated bond portfolio established in 1984. For 1985, this assumption ranges between 7.8% and 11.1%, depending upon the duration, as to current plan assets and remains 8.25% for the long-term future. Similar assumption changes were made for the Canadian plan during 1985.

The following information is presented for the domestic and Canadian pension plans:

	January 1	
	1985	1984
Actuarial present value of accumulated plan benefits using return assumptions discussed above:		
Vested	$234,503	$247,348
Non vested	18,112	11,482
Total	$252,615	$258,830
Net assets available for benefits at estimated fair value	$306,858	$314,715

Operations were charged approximately $8,000 in 1985, $7,600 in 1984 and $7,300 in 1983 primarily for payments to pension trusts on behalf of domestic employees not covered by the Company's plans and foreign employees.

Most domestic employees not covered by the Company's plans are covered by collectively bargained plans. The Company's collective bargaining agreements are generally effective for periods of from one to three years. Under federal pension law there would be continuing liability to these pension trusts if the Company ceased all or most participation in any such Trust, and under certain other specified conditions. The annual payment of such continuing liability would not normally exceed the annual amount currently being paid to such Trust. The amount of such liability would be determined should the Company withdraw from participation.

Foreign pension plans are administered under a variety of methods because of differing local laws and customs and therefore are not summarized with the domestic and Canadian plans. However, the total of the foreign pension funds and accruals approximated the actuarially computed value of vested benefits.

The charges to operations for health and life insurance benefits to retired domestic and Canadian employees under Company plans amounted to $5,100, $5,400 and $5,900 in 1985, 1984 and 1983, respectively.

8. Shareholders' Equity

Each of the 17,095 shares of preferred series B stock bears an annual cumulative dividend of $1.32, is convertible into 2.2 common shares, and is redeemable at the Company's option at $39. At December 31, 1985, 37,609 common shares were reserved for conversion of preferred series B stock.

Following is an analysis of common shares reserved for stock options under the Company's 1974 and 1984 Stock Option Plans:

	Common Shares Reserved For Stock Options	
	Shares*	Price Range*
January 1, 1985	997,336	$11.50-28.84
Grants	286,300	31.91
Exercises	(333,224)	11.50-28.84
Expirations or cancellations	(17,700)	11.50-31.91
December 31, 1985	932,712	12.69-31.91

*Restated for retroactive application of the two-for-one stock split explained in Note 2.

At December 31, 1985, 656,812 options were exercisable. Included with the shares reserved for unexercised options at December 31, 1985 are 405,709 options with stock appreciation rights attached, which permit the holder the election in lieu of exercising the option, of

receiving cash, shares, or a combination of cash and shares. During 1985, 167,233 stock appreciation rights were exercised.

The Company's 1984 Stock Option Plan provides for the grant of options to purchase up to 1,700,000 shares of the Company's common stock. The Plan expires in 1989 and no further options may be granted thereafter. At December 31, 1985 there were 1,145,900 shares available for future grants.

9. Supplemental Income Statement Information

Set forth below is a comparative summary of certain expense items:

	1985	1984	1983
Maintenance and repairs	$113,320	$117,714	$104,732
Depreciation, depletion and amortization	122,651	111,875*	94,602*
Advertising and promotion, including promotions of $213,429, $186,893 and $161,270, respectively	267,625	252,048	219,110
Research and development	23,829	22,513	21,991
Rent	34,097	33,970	29,224

*Restated for retroactive application of the accounting change explained in Note 2.

10. Quarterly Financial Data (Unaudited)

	1985 Quarters			
	First**	Second**	Third	Fourth
Net sales	$1,077,361	$1,192,724	$1,199,559	$1,246,528
Gross profit	232,173	272,340	283,967	312,132
Net income	34,657	46,273	57,146	55,728
Per share of common stock:				
Earnings	.66	.89	1.11	1.09
Dividends*	.34	.38	.38	.38
Market price range:				
Low	31⅝	32⅛	35⅞	38½
High	36¼	42½	42	53½

*Dividends on preferred series B stock were $.33 in each quarter during 1985.
**Restated for retroactive application of the accounting change explained in Note 2.

	1984 Quarters			
	First**	Second**	Third**	Fourth**
Net sales	$1,096,235	$1,186,537	$1,139,918	$1,145,328
Gross profit	238,553	293,094	262,777	266,045
Net income	33,508	51,157	51,194	46,223
Per share of common stock:				
Earnings	.60	.94	.98	.89
Dividends*	.305	.34	.34	.34
Market price range:				
Low	25	26	28	28½
High	30	30	31¾	32½

*Dividends on preferred series B stock were $.33 in each quarter during 1984.
**Restated for retroactive application of the accounting change and the two-for-one stock split explained in Note 2.

11. Supplemental Information for Changes in Financial Position

The Consolidated Statements of Changes in Financial Position on page 37 have been prepared on a cash basis. The Company believes that presenting information reflecting the flow of funds on a cash basis is a more desirable method than similar information presented on a working capital basis and provides the most useful portrayal of the financing and investing activities and the changes in financial position of the Company.

The following analyzes the increases (decreases) in the components of working capital and certain elements of the Statements:

	Year Ended December 31		
	1985	1984	1983
Cash (including time deposits and short-term investments)	$ 18,734	$(20,839)	$ 12,378
Accounts receivable	60,528	82,686	34,001
Inventories	4,306	20,989	(1,521)
Other current assets	13,437	432	11,288
Debt payable within one year	91,740	(76,438)	(43,578)
Accounts and drafts payable	(40,445)	8,531	(16,350)
Income taxes	6,025	7,024	(27,244)
Other current liabilities	18,700	(35,726)	6,939
Increase (decrease) in working capital	$173,025	$(13,341)	$(24,087)

Division operating income as shown in the Statements less other income and expenses not allocable to divisions and income taxes appearing on page 30 constitutes the net income of the Company.

Acquisitions during 1985 include the Crown and Sunworthy wallcovering operations, the Viviano and Anthony Macaroni pasta operations, a domestic dairy operation and a bakery operation in West Germany. Acquisitions during 1984 include Ronco Enterprises, Inc., a pasta operation, three domestic dairy operations, the remaining interest in a snacks operation in Spain and a rigid film products operation in Scotland. Acquisitions during 1983 include Geiser's Potato Chips and Clover Club Foods, snack foods companies, and the minority interest in common stock of Industrias La Famosa.

Report of Management

BORDEN INC
277 PARK AVENUE • NEW YORK, N. Y. 10172

The management of Borden, Inc. is responsible for the preparation and the integrity of all information included in this report. The financial statements which necessarily include amounts based upon the judgements of management, have been prepared in accordance with generally accepted accounting principles appropriate in the circumstances and consistently applied.

The Company, in order to meet its responsibilities, has established and supports internal accounting control systems which are designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorizations and that those transactions are properly recorded to permit the preparation of financial statements in accordance with generally accepted accounting principles. The Company's internal accounting control system is regularly reviewed for effectiveness, monitored by an internal audit department and implemented by well trained and qualified personnel. In addition, the company has distributed to all key employees its policies for conducting business affairs lawfully and in an ethical manner.

Management recognizes that no internal accounting control system that properly weighs benefits against costs will preclude absolutely all errors and irregularities. It believes, however, that the Company's internal accounting control system provides reasonable assurance that any material errors and irregularities are prevented or would be detected and corrected within a timely period by employees in the normal course of performing their assigned duties.

The Board of Directors, through its Audit Committee consisting of non-employee directors, meets periodically with management, the Company's internal auditors and its independent accountants to discuss audit and financial reporting matters. Both the independent accountants and the Company's internal auditors have free access to the Audit Committee and Board of Directors, without management present, to discuss internal accounting control, auditing, and financial reporting matters.

E. J. Sullivan
Eugene J. Sullivan
Chairman and
Chief Executive Officer

L O Doza
Lawrence O. Doza
Senior Vice President
and Chief Financial Officer

Report of Independent Accountants

Price Waterhouse
180 East Broad Street
Columbus, OH 43215

January 28, 1986

Board of Directors and
Shareholders of Borden, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and changes in financial position present fairly the financial position of Borden, Inc. and its subsidiaries at December 31, 1985 and 1984, the results of their operations and the changes in financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

Supplemental Financial Data Adjusted for the Effects of Changing Prices
(Unaudited)

Introduction

The Company's financial statements are stated at historical or actual costs and have not attempted to disclose the effect of inflation or disinflation. Recently, as evidenced by the trend in the average consumer price index, the effect of inflation is lessening. In an effort to produce financial information that discloses the effects of inflation the Financial Accounting Standards Board (FASB) issued Statement No. 33, Financial Reporting and Changing Prices, requiring companies to explain the effect of inflationary factors on operations using the current cost method.

The current cost method adjusts certain elements of the basic historical financial statements for price changes of specific assets. Current cost identifies certain assets or expenses with the use or sale of products in terms of what their current costs would have been when they were used or sold rather than what their historical cost actually was. Generally, Borden's inventories, plants, and equipment would cost more to replace than when they were originally acquired. This concept is specifically applied to each business's methods of operation, products, and types and locations of assets, but it unrealistically assumes that the same types of property, plant, and equipment would be purchased.

This method of reporting inflationary effects requires the use of assumptions, approximations and estimates. Inflation adjustments will vary among companies because of different effects of inflation as well as different methods of accounting used in the historical financial statements. This inflation adjusted data is, therefore, not a precise indicator of inflationary effects primarily because the method utilized does not necessarily provide actual amounts for which assets could be sold, cost which would be incurred in the future, or the manner in which actual replacement of assets would occur.

Supplementary information on the current cost basis is shown below:

Statement of Income from Continuing Operations Adjusted for Changing Prices
(In thousands except per share data)

	Year Ended December 31, 1985	
	As Reported in the Primary Statements	Adjusted for Changes in Specific Prices (Current Costs)
Net sales	$4,716,172	$4,716,172
Cost of goods sold (excluding related depreciation expense)	3,511,763	3,519,683
Other operating expenses (excluding related depreciation expense)	682,897	682,897
Depreciation expense	122,651	187,653
Interest expense	74,357	74,357
Earnings before income taxes	324,504	251,582
Income taxes	(130,700)	(130,700)
Net Income	$ 193,804	$ 120,882
Gain on net monetary items		23,996
Earnings, net of inflationary effects		$ 144,878
Increase in current cost of inventories and property and equipment excluding translation adjustment*		$ 138,308
Less effect of increase in general price level before translation adjustment		100,974
Excess of increase in specific prices over increase in the general price level		$ 37,334
Net income per common share	$ 3.75	$ 2.34
Gain on net monetary items		.46
Earnings, net of inflationary effects		$ 2.80
Effective tax rate	40%	52%

*At December 31, 1985 the current cost of inventory was $440,573 and the current cost of net property and equipment was $2,314,057.

Discussion and Analysis of Supplemental Financial Data

Net income derived under the current cost method has been adjusted only for depreciation expense and product costs related to restated property and equipment and inventories. The increased depreciation expense under this method is a result of the adjustment required to reflect the impact of inflation on assets which have relatively long lives. The increased values of current cost of goods sold over historic cost of goods sold is a result, primarily, of the increasing costs of raw materials and labor. Sales and all other costs and expenses remain unchanged from the primary statements since they are considered to occur relatively evenly throughout the year. In accordance with the FASB statement, income tax expense has not been restated in the inflation-adjusted earnings statement despite the significant reduction in pre-tax earnings. If the higher depreciation and other costs had actually been incurred, the Company would have reported added tax deductions and tax credits, such as investment tax credits, which would significantly increase inflation adjusted net income.

Current cost amounts were determined by adjusting inventories and cost of goods sold to year-end and time of sale market values of raw materials and current production costs using average and standard costing, and indexing methods. Property and equipment was adjusted to current cost primarily by applying indices developed both internally and externally. Depreciation was calculated using the same methods and depreciable life assumptions as those used in the primary financial statements.

The gain from decline in the purchasing power of net amounts owed was determined by calculating the net monetary liabilities at the beginning and end of the year, stating these amounts in average 1985 dollars and deriving the change therefrom. Monetary assets and liabilities are cash, and claims on, or liabilities for, cash receipts or payments, the amounts of which are fixed in terms of the number of dollars to be received or paid. The net monetary gain shown in the preceding supplemental statement results from Borden's net monetary liability position which will be repaid with dollars which have lost purchasing power relative to the point when the liabilities were incurred.

The data presented in the five-year summary has been adjusted for the effects of specific price changes in the same manner as for 1985 information. All amounts in the summary are stated in estimated average-for-the-year 1985 dollars as measured by the Consumer Price Index for All Urban Consumers. As is apparent in comparing data from the primary statements to the same data on the current cost basis, real growth results only when the nominal rate of growth exceeds the rate of inflation.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

(In thousands, except per share data and average consumer price index)

	1985	1984*	1983*	1982*	1981*
Net sales	$4,716,172	$4,731,004	$4,604,924	$4,578,823	$5,222,353
Current Cost Information:					
Net income	120,882	125,350	127,862	76,894	51,754
Net income per common share	2.34	2.33	2.22	1.35	0.88
Net assets	2,404,281	2,337,137	2,398,201	2,478,333	2,630,359
Foreign currency translation adjustment	(48,446)	(95,939)	(169,881)	(117,063)	
Excess of increase in specific prices over the increase in the general price level	37,334	64,860	61,158	54,395	58,902
Other Information:					
Purchasing power gain on net monetary items	23,996	24,014	18,298	22,727	51,502
Cash dividends per common share	1.48	1.38	1.29	1.21	1.19
Market price per common share	51⅞	33	30	26⅛	16
Average consumer price index	322.2	311.1	298.4	289.3	272.4

*Restated for retroactive application of the accounting change and the two-for-one stock split explained in Note 2 to Consolidated Financial Statements.

Executive Offices

Borden, Inc.
277 Park Avenue
New York, New York 10172
Telephone (212) 573-4000

Administrative Headquarters

180 East Broad Street
Columbus, Ohio 43215
Telephone (614) 225-4000

Annual Meeting

The Annual Meeting will be held on Friday, April 18, 1986, beginning at 11:00 a.m. in the Hunterdon Theatre, Church Street and Route 31, Flemington, New Jersey 08822

Independent Accountants

Price Waterhouse
180 East Broad Street
Columbus, Ohio 43215

Transfer Agent, Registrar & Dividend Disbursing Agent

The Bank of New York
90 Washington Street
New York, New York 10015

Dividend Reinvestment Plan

A dividend reinvestment plan is available to Borden shareholders. Quarterly common stock dividends are automatically reinvested in Borden common stock, and optional cash investments may be made for the purchase of additional shares. No service fees or commissions are assessed for shares purchased under this program. For more information, write:

The Bank of New York
P.O. Box 11002
Church Street Station
New York, New York 10277

Borden, Inc. will furnish to any shareholder, without charge, a copy of its most recent annual report on Form 10-K, as filed with the United States Securities and Exchange Commission.

Written requests should be directed to:

Borden, Inc.
Director, Investor Relations
277 Park Avenue
New York, New York 10172

Debenture Trustees

4⅜% Sinking Fund Debentures
The Chase Manhattan Bank, N.A.
New York, New York 10081

5¾% Sinking Fund Debentures
Morgan Guaranty Trust Company of New York
New York, New York 10015

8½% Sinking Fund Debentures
Bank of America, N.T.& S.A.
San Francisco, California 94137

9⅜% Sinking Fund Debentures
The Bank of New York
New York, New York 10015

Exchange Listings

Common Stock (Ticker Symbol-BN)
New York Stock Exchange
The Common Stock is currently listed on exchanges in Basel, Geneva, Lausanne and Zurich, Switzerland.

New York Stock Exchange
4⅜% Sinking Fund Debentures, due 1991
5¾% Sinking Fund Debentures, due 1997
8½% Sinking Fund Debentures, due 2004
9⅜% Sinking Fund Debentures, due 2009

Date and State of Incorporation

April 24, 1899-New Jersey


CRECS
patatas
GRILL
WISE
NEW
fresher
package!
NATURAL
FLAVOR
BORDEN
BORDEN, INC. 277 PARK AVENUE NEW YORK, N.Y. 10172